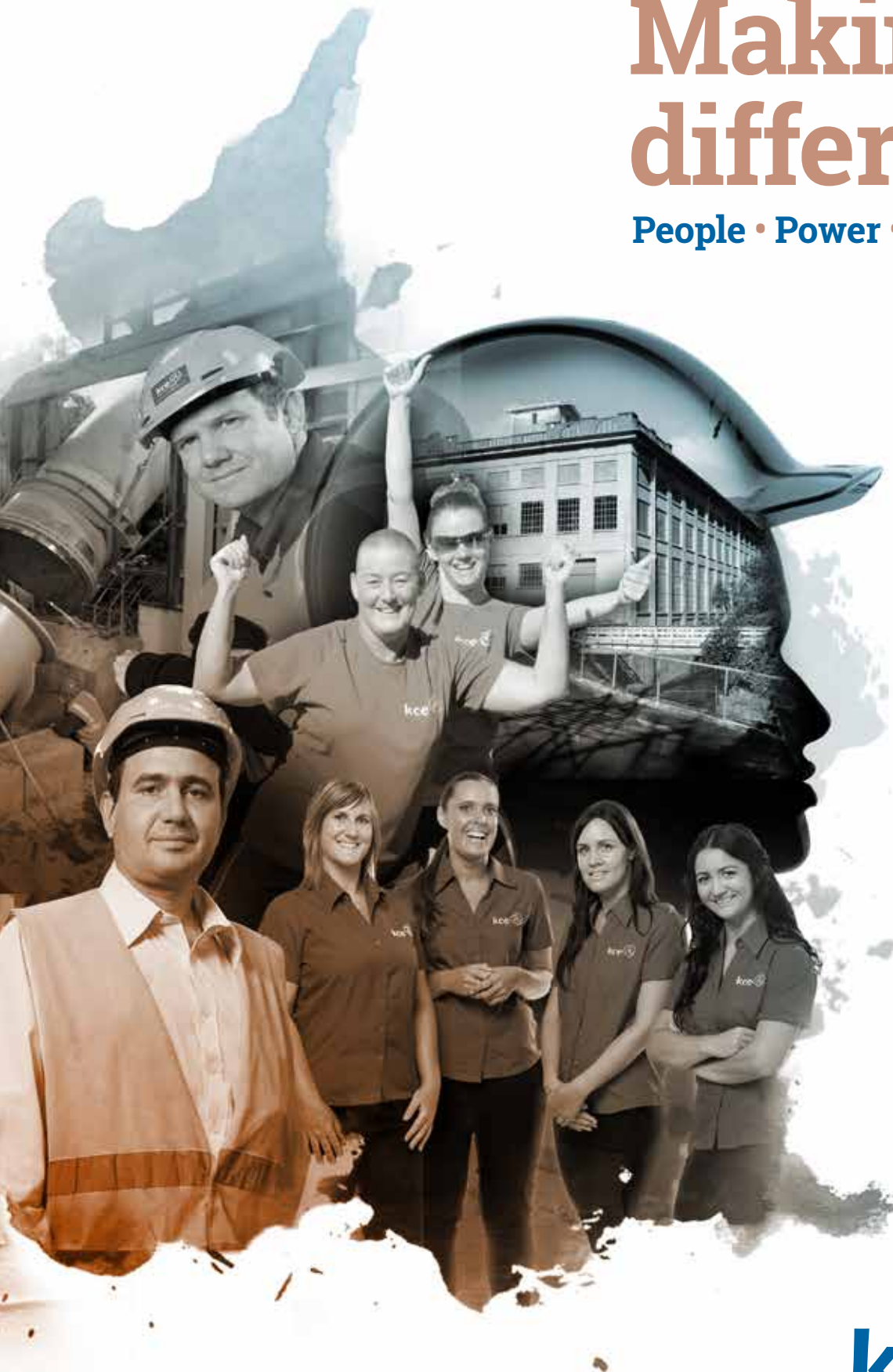


**ANNUAL REPORT**

FOR THE 9 MONTHS TO 31 DECEMBER 2014

# Making a difference

**People • Power • Performance**



*The power behind our community*

# Contents

<b>01</b>	The numbers	<b>16</b>	Statement of Corporate Governance and Statutory Information
<b>02</b>	Making a difference in the community	<b>19</b>	Directors' Responsibility Statement
<b>03</b>	Mangahao runner upgrade a success	<b>20</b>	Statement of Comprehensive Income
<b>04</b>	Strengthening our retail team	<b>21</b>	Statement of Changes In Equity
<b>05</b>	Wairere G5 replacement yields results	<b>22</b>	Statement of Financial Position
<b>06</b>	Chairman's Report - 9 months to Dec 2014	<b>23</b>	Statement of Cash Flows
<b>09</b>	Health and safety a key focus	<b>25</b>	Accounting Policies
<b>10</b>	Chief Executive Officer's Report	<b>30</b>	Notes to the Financial Statements
<b>15</b>	Environmental achievements lauded	<b>52</b>	Independent Auditor's Report

## On the cover



**A** Chris Fincham, KCE energy supply manager, at Wairere Power Station during the turbine replacement project. **B** In March, several KCE staff took part in the gruelling 155km Taupo Great Lake Relay in a bid to raise money for Leukaemia & Blood Cancer (LBC) New Zealand. **C** KCE's Mangahao Power Station near Shannon in the Manawatu. **D** KCE generation operations manager, Vladimir Kabonov (in foreground), and his team. **E** Our new Key Accounts Team. **F** Children enjoying their new flippers in the Taumarunui Trust Waikato Community Pool, thanks to a KCE Heartland Community Fund grant. **G** In May, 90 members of the Wellington Community Choir embarked on a mystery trip to Mangahao Power Station where they sang inside the 90 year old building. The trip was part of the choir's annual 'mystery trip' getaway. **H** Taumarunui local Zeria-Leigh Ngahere, 6, saw the King Country region from an all-new perspective as she flew for the first time from Taumarunui to Te Kuiti in the Westpac Rescue Helicopter on 14 April. She was the winner of a flight draw that took place during KCE's first ever Community Fun Day at Tuhua Domain.



# The numbers

**12.5c**

## DIVIDEND

Fully imputed (to 4.9c per share) final dividend to be paid on 10 April 2015. 12c fully imputed (to 4.7c per share) final dividend to 31 March 2014 paid on 27 June 2014.

**\$12.8**  
MILLION

## EBITDAF\*

\$11.3m for the 9 month period to 31 December 2013 (unaudited) and \$12.6m for the year ended 31 March 2014 (audited).

**\$3.8**  
MILLION

## NPAT

\$4.1m for the 9 month period ended 31 December 2013 (unaudited) and \$5.1m for the year ended 31 March 2014 (audited).

**\$8.1**  
MILLION

## NET OPERATING CASHFLOW

\$7.1m for the 9 month period to 31 December 2013 (unaudited) and \$9.6m for the year ended 31 March 2014 (audited).

**183**  
GWh

## RETAIL SALES

155 GWh for the 9 month period ended 31 December 2013 and 207 GWh for the year ended 31 March 2014.

**166**  
GWh

## GENERATION VOLUME

155 GWh for the 9 month period ended 31 December 2013 and 185 GWh for the year ended 31 March 2014.

\*EBITDAF – Earnings Before Interest, Tax, Depreciation and impairment, Amortisation and Fair value adjustments. Directors consider EBITDAF an important indicator of financial performance. All components in the reconciliation of EBITDAF to NPAT have been extracted from the audited Financial Statements of the Group and further detail of the reconciling items can be found in the Financial Statements.

Calculation (\$000):	Period Ended 31 December 2014	Period Ended 31 December 2013 (unaudited)	FY 13/14
<b>Net Profit After Tax</b>	<b>3,838</b>	<b>4,071</b>	<b>5,070</b>
Income Tax	1,483	1,989	2,115
Net Interest	1,354	989	1,367
Depreciation, Impairment and Amortisation	4,601	4,630	6,571
Fair Value Adjustments	1,532	(384)	(2,527)
<b>EBITDAF</b>	<b>12,808</b>	<b>11,295</b>	<b>12,596</b>





# Making a difference in the community

Our Heartland Community Fund was initiated at the beginning of 2014 to ensure KCE's support is spread as widely as possible throughout our operating areas. We are excited to declare that since its launch, we have provided 28 King Country community groups with a total of \$19,000.

This funding was distributed to successful groups following funding rounds in March, July and November. All recipients undertook projects that align with Heartland's core values of keeping the community safe, healthy, beautiful and connected.

In most cases we provided partial funding. Rather than a hand-out, we consider Heartland funding to be a hand-up, getting community groups closer to their total funding goals. Our aim is that with each funding round and passing year we will be able to spread our support more widely and help more and more groups that are doing great work in our King Country communities.

Not only have we made a difference in King Country communities through Heartland funding, we have also continued to support Duffy Books in Homes, netball centres in Te Kuiti, Otorohanga and Taumarunui, the Trust Waikato Community Pool, and the Westpac Rescue Helicopter.

Through these initiatives we demonstrate our commitment to being 'the power behind our community' we look forward to many more years of providing Heartland grants and supporting community initiatives that make a big difference.

**"Our aim is that with each funding round and passing year we will be able to spread our support more widely and help more and more groups that are doing great work in our King Country communities."**

*One of our 2014 Heartland Community Fund recipients was the Taumarunui Trust Waikato Community Pool, which used a small grant to purchase 20 child-size flippers. The funds will help contribute to the health and wellbeing of children participating in local swimming programmes.*





*In 2014 we replaced the main runner at Mangahao Power Station. This replacement runner (on left) was required after a flood event in 2008 damaged the original runner (on right).*

# Mangahao runner upgrade

## a success

**This financial period we completed a \$2.5 million upgrade to the main 26MW G1 turbine at our Mangahao Power Station near Shannon.**



In January 2008 there was a unique flood event that caused damage to the G1 turbine. The damage was to part of the generation asset known as the 'runner.'

Essentially, the runner is the part of the turbine that does most of the work. It turns water energy into mechanical energy as water flows through the turbine. Think of it as a huge propeller.

The damage to the runner following the flood event was significant, but not enough to put the turbine out of service. While the old runner was still safe, it was less reliable.

So, in an effort to keep the power station running reliably and efficiently, KCE awarded a tender to Mace Engineering based in Christchurch, to equip the station with a replacement runner.

The replacement runner was installed in April 2014 and has operated satisfactorily ever since. It has better materials – specifically, hard coating materials to prevent erosion – thus, improving its lifespan.

Our focus is on protecting the longevity of our assets and service continuity for our customers. The intention of this upgrade is to ensure Mangahao continues to generate for many years to come.



# Strengthening our retail team

**KCE's retail team is about living-out our 'Heartland' community-based values and delivering a highly personal customer service experience. Recently, we've made some exciting changes to our retail team to ensure we keep lifting the bar for our customers.**

Overall, KCE is proud of the strong relationships we have with our customers and local communities. Our high customer satisfaction and retention rates are a welcome endorsement from our customers. However, we're not resting on our laurels; we are always looking for ways to improve.

We have introduced the Community Relations Manager position to further raise KCE's community profile and customer engagement. This position will deepen our relationships with community organisations, ensure a more active sponsorship strategy, and improve customer communications. This role acknowledges that community is at the heart of KCE and is what differentiates us from our competitors.

A Key Accounts Team has also been established to deliver a more responsive, personal service to larger

existing and prospective customers with more complex needs. This team is specifically trained to support farms and small to medium-sized enterprises (SMEs) in KCE's traditional trading area and adjacent provincial towns.

These changes are part of a programme of work that includes strengthening the retail leadership team, realigning customer service functions, and introducing specialist operational roles. They are all part of KCE's commitment to service excellence and growing our retail business. The next challenge for the retail team is to take the customer value proposition that is so successful in our traditional trading areas out to a new customer base.

*KCE's new Key Accounts Team was formed in 2014 and is focused on delivering a responsive, personal service to existing and prospective higher value customers.*

**KCE Key Accounts Team**





*Chris Fincham, energy supply manager, at Wairere Power Station during the construction phase of the new Turab turbine installation.*

# Wairere G5 replacement yields results

**Wairere hydro power station, built in 1924, is the oldest of five hydro-generation power stations owned by KCE. Following four years of planning and implementation, we have completed a significant upgrade that will result in improved efficiency.**

The Wairere upgrade consisted of installing a new 1.2MW Turab turbine and generator to replace three older generators, the first of which was originally installed in 1924.

Wairere was initially built with one small generation unit. Three more units were added in the 1930s, 1950s and 1980s. The fourth generator installed in the 1980s had changed the operating requirements of the three older generators, all of which were showing signs of their age.

So after reviewing operating requirements at Wairere in 2010, we were provided with two choices. We could either overhaul the three old units or install a single new one. We chose, after a detailed review, to buy a new single unit turbine generator. This is a modern package built to high standards particularly around its efficiency and has been installed to meet current earthquake standards.

We have experienced a five per cent improvement in efficiency from the new generator compared to what the older three units produced altogether.

As well as the efficiency gain, our focus is on protecting the longevity of our assets and service continuity for our customers. This upgrade will ensure Wairere continues to generate efficiently well into the future.

# Chairman's Report

The nine month financial period to 31 December 2014 was a positive one for King Country Energy (KCE). During the period we enjoyed very good hydrology in our catchment areas and favorable wholesale electricity market prices – both factors contributed to a solid result.

The following is a summary of the performance for the nine month period to 31 December 2014, the shorter period reflecting a change in the company's balance date from 31 March to 31 December.

Toby Stevenson,  
Chairman



EBITDAF Reconciliation (\$'000)			
	Period End 31 December 2014 (Audited)	Period End 31 December 2013 (Unaudited)	Year End 31 March 2014 (Audited)
Total Comprehensive Income for the year	3,838	4,071	5,071
Income Tax Expense	1,483	1,989	2,115
Fair Value Movement on Derivatives (Gain)/Loss	1,532	(386)	(2,527)
Net Interest	1,354	989	1,367
Depreciation, Impairment and Amortisation	4,601	4,630	6,570
EBITDAF	12,808	11,293	12,596

## Health, Safety and Environment

During the period KCE made progress with our Health and Safety Environment (HSE) practices ahead of changing health and safety legislation. These initiatives are ongoing and aimed at achieving best practice governance in this business-critical area.

I am pleased to report no Lost Time Injuries (LTIs) occurred during the period across the whole business. There was also a reduction in medical treatment injuries from the previous financial year with only one injury reported.

Additionally, the generation side of the business recorded a significant health and safety milestone during the period, surpassing 3000 days without an LTI across the entire generation portfolio.

We are advancing our environmental management systems with the aim of reducing breaches to our resource consents. A structured approach to risk management has reduced the number of incidents; however the generation

business recorded one significant near miss incident at one of our hydro schemes. This incident resulted in environmental damage to the waterway, a process is in place to remedy this damage.

## Financial Performance

The company's consolidated profit after tax was \$3.8 million for the period, a 7.3% decrease on the \$4.1 million unaudited result for the nine month period to 31 December 2013. This decrease was due, in part, to the movement in fair value of electricity hedges.

Earnings before interest, tax, depreciation, amortisation, fair value movements of financial instruments and asset impairments (EBITDAF) were \$12.8 million, an increase of 13.3% on the \$11.3 million unaudited result for the previous corresponding period.

This positive result is due largely to the company experiencing favourable conditions for hydrology and spot prices, particularly in the last quarter of the nine month period. Retail margins continue



to come under pressure from the competitive retail market during the period; however these are offset by a favourable generation business result.

Overall the combined revenues from the business were 17.8% higher than the previous corresponding period.

KCE's operating revenue was \$37.7 million and operating cashflow was \$8.1 million for the nine month period to 31 December 2014. The year end net debt position was \$26.0 million.

Operating expenses, including wholesale electricity costs, increased 9.2% on the previous corresponding period. This was primarily due to:

- increased investment in health and safety initiatives;
- new environmental and human resources management initiatives; and
- investment in the retail business to position for further growth.

Of the company's total retail volume, 166 GWh was met by our own hydro generation assets; this was 7% higher than the previous corresponding period.

The directors are pleased with the operational progress of the company, completing a number of capital upgrade projects during the period. Most notable is the Wairere G5 project, which involved replacing aging original turbines with a modern unit.

The key performance measures of EBITDAF, net profit after tax (NPAT) and operating cash flow are summarised in the following chart together with dividend distributions.

### Financial Position

KCE's balance sheet as at 31 December 2014 remains strong. Shareholders' funds represent 83% of total assets with the remaining 17% financed by net bank debt of \$26m.

### Governance

During the year Mr Brian Gurney resigned as chairman and was replaced by Mr Toby Stevenson, the former deputy chairman. Mr Gurney remains a director.

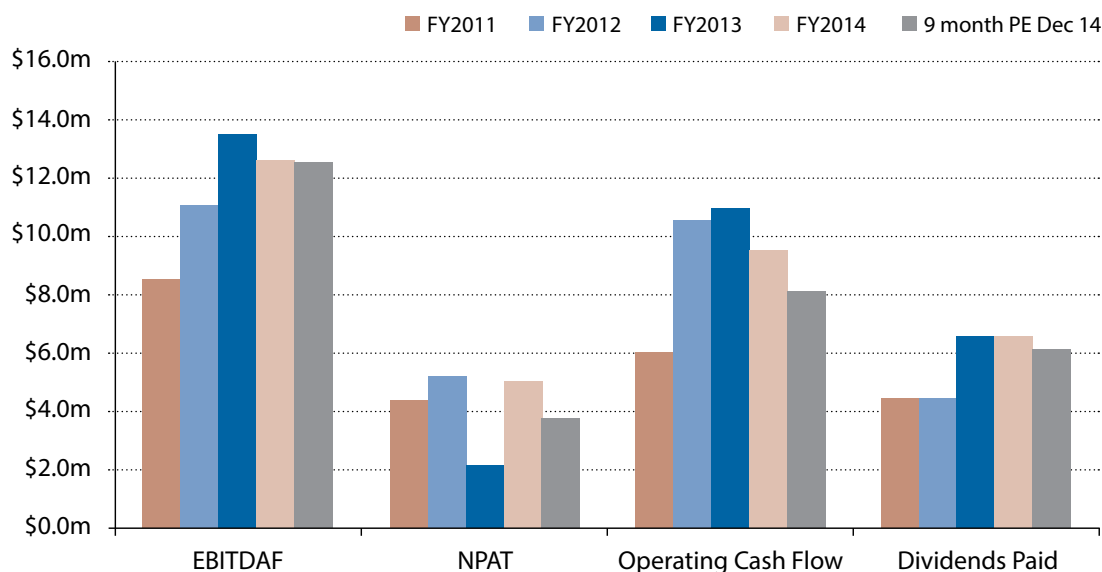
During the current year Toby Stevenson and Brian Needham are due for re-election to the board by rotation.

**\$37.7  
MILLION**  
OPERATING REVENUE

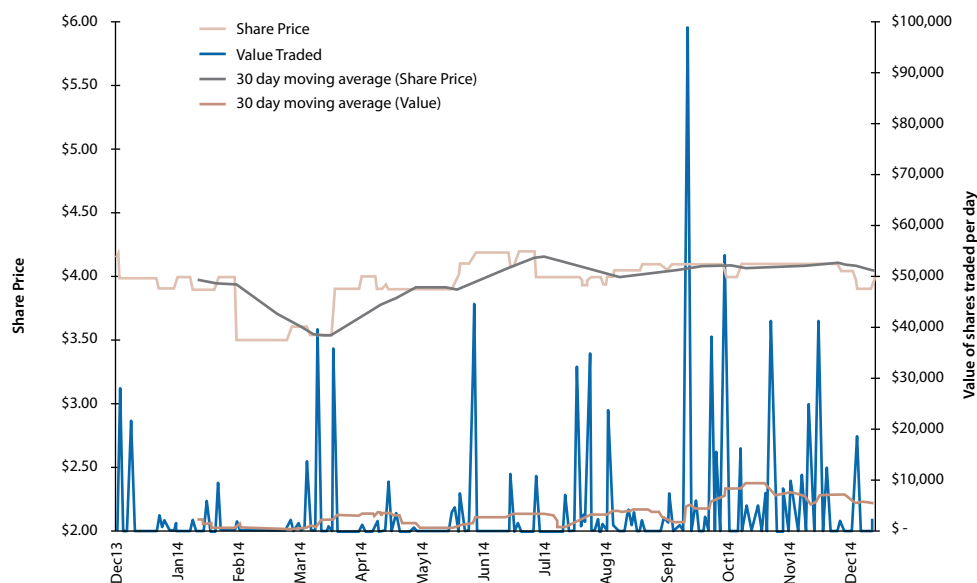
COMBINED REVENUES  
**17.8% HIGHER**  
THAN PREVIOUS  
CORRESPONDING PERIOD

**"We remain focused on pursuing our growth objectives, both in the retail and generation businesses, and generating positive returns for shareholders."**

### Key Financial Measures



## Share Price and Value Traded for the past 12 months



## Dividends

Directors have approved a fully imputed, final gross dividend of 17.4 cents per share payable on 10 April 2015 (record date of 2 April 2015). This, together with the interim gross dividend of 17.0 cents per share, provides a total payment of 34.4 cents per share for the financial period to 31 December 2014.

The final dividend is a 4.2% increase on the previous year and provides shareholders with a gross dividend yield of 8.6% based on the share price of \$4.00 on 31 December 2014.

The company confirms that, following payment of the final dividend, there is sufficient cash flow and working capital available for current funding requirements.

## Auditors

Ernst & Young has notified KCE it wishes to continue in the audit role for the current financial year.

## Share Price

The share price over the 9 months to December traded in the range of \$3.50 to \$4.20 and closed at \$4.00. The chart above shows the historic trading pattern.

## Future Outlook

The board is delighted that the business outperformed its financial targets for the period.

The industry remains in an oversupply position but continues to develop, especially in the competitive retail environment. In the past period KCE responded very well to this key challenge and is repositioning itself to take advantage of the increasingly competitive retail market environment.

We remain focused on pursuing our growth objectives, both in the retail and generation businesses, and generating positive returns for shareholders. We are optimistic about meeting the challenges of a dynamic market and creating opportunities to develop the business in the future.

I would like to thank my fellow directors for their continued cooperation and professional judgement and all the company staff for their service and dedication to the company.

And finally, I would like to thank you, our shareholders, for your continued support and loyalty as we strive to develop and grow the KCE business.

**Toby Stevenson**  
Chairman



# Health and safety a key focus for 2015

**KCE strives to achieve a high standard in Health and Safety Environment (HSE) practice. We have a good track record and aim to improve our HSE practices further as we move into 2015.**

We have an ongoing programme of identifying and monitoring all hazards within our business environment likely to cause any injury or illness

In addition to ongoing monitoring, we are also working to increase general Health and Safety Environment (HSE) awareness at KCE. Part of this awareness raising included undertaking a HSE culture survey to gauge current understanding of HSE amongst staff.

We anticipate the Health and Safety Reform Bill and other HSE legislative changes currently before New Zealand Parliament to be implemented during the 2015 year. This legislation will introduce much higher regulatory standards for all businesses, and KCE will continue to review and develop our HSE processes to attain best practice HSE governance.



*KCE generation operations manager, Vladimir Kabonov (left), and his team in front of the completed Turab turbine installation project at Wairere Power Station.*

**166**<sub>GWh</sub>  
PRODUCED FOR THE PERIOD

**5.6%**  
— ABOVE —  
MEAN AVERAGE PRODUCTION

**“Exemplary service delivery and strong customer relationships are at the heart of KCE’s customer value proposition.”**



# Chief Executive Officer's Report

## Investing in our future

The nine month period to December 2014 saw a number of investment projects concluded for KCE, all of which enhance our portfolio of assets and provide the company with robust operations going forward.

As reported to shareholders in the previous annual report, at the Wairere hydro scheme we installed a modern 1.2MW Turab turbine to replace three aging units. The Turab turbine was commissioned in June 2014 and overall the project has significantly enhanced the operations of the scheme, increased overall efficiency and modernised the scheme's seismic and operational standards.

Installation and testing of a new runner for the main turbine at the Mangahao hydro scheme, manufactured by Mace Engineering in Christchurch, was the second significant capital expenditure project concluded during the period. The Mace runner replaced the original runner which had been damaged in a flood event in 2008; the original runner now acts as a fully reconditioned spare, enabling a significantly faster return to service if runner failure occurs in the future.

## National Market Situation

Nationally, hydro storage levels were about average for the nine month period to 31 December 2014 and inflows for the period were variable, although overall amounted to an average year.

The charts on page 11 highlight the hydrology situation relative to previous years.

## Generation

KCE's generation revenue for the nine month period was higher than expected. A strong first three month generation production period was followed by weaker production during the winter months, and higher than expected levels during November and December. See page 12 for the FY 2014 generation performance chart.

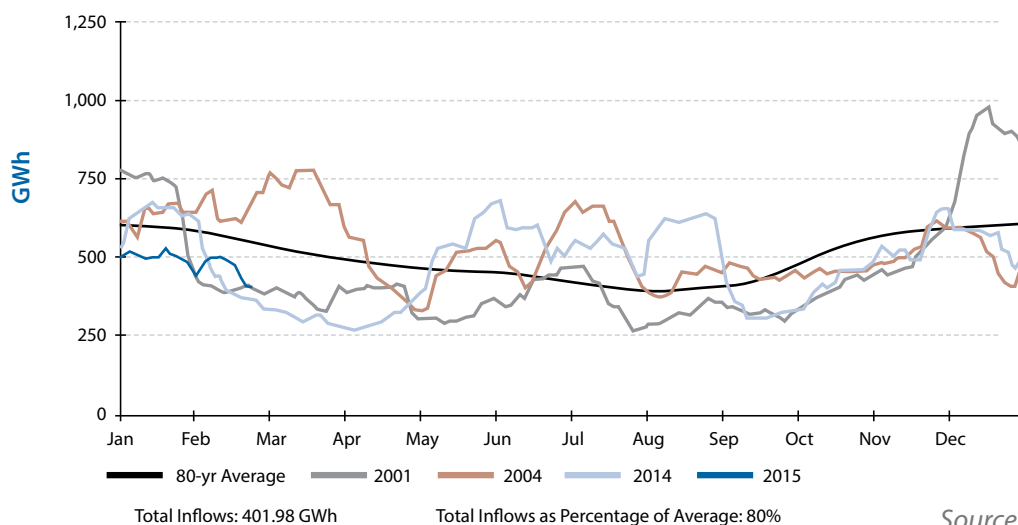
Wholesale electricity spot prices were higher than expected at the beginning of the period, before higher inflow patterns in the winter months resulted in price reductions. Low prices lasted until late spring when higher prices returned. These higher wholesale



**Rob Foster,**  
Chief Executive Officer

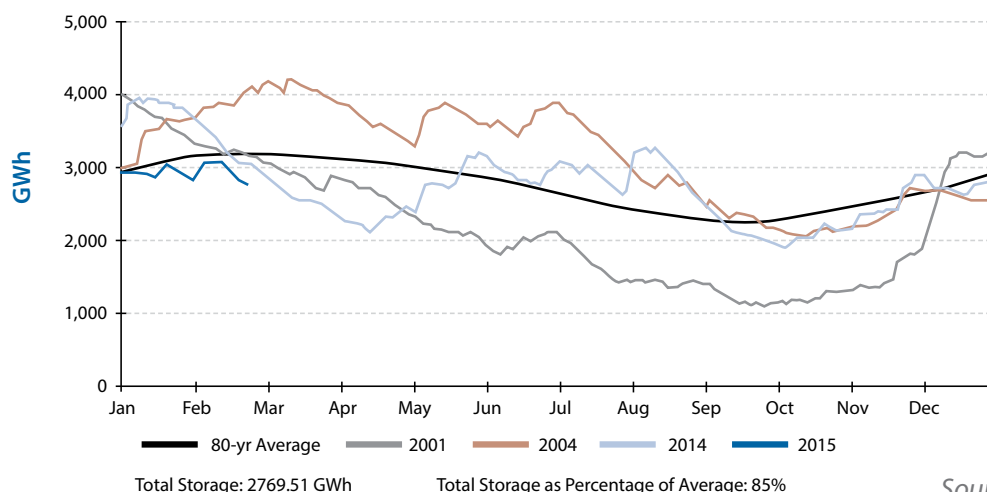


## New Zealand Weekly Inflows - 30 day average



Source: NIWA

## New Zealand Daily Storage



Source: NIWA

price periods are favourable to KCE when we have excess electricity to sell.

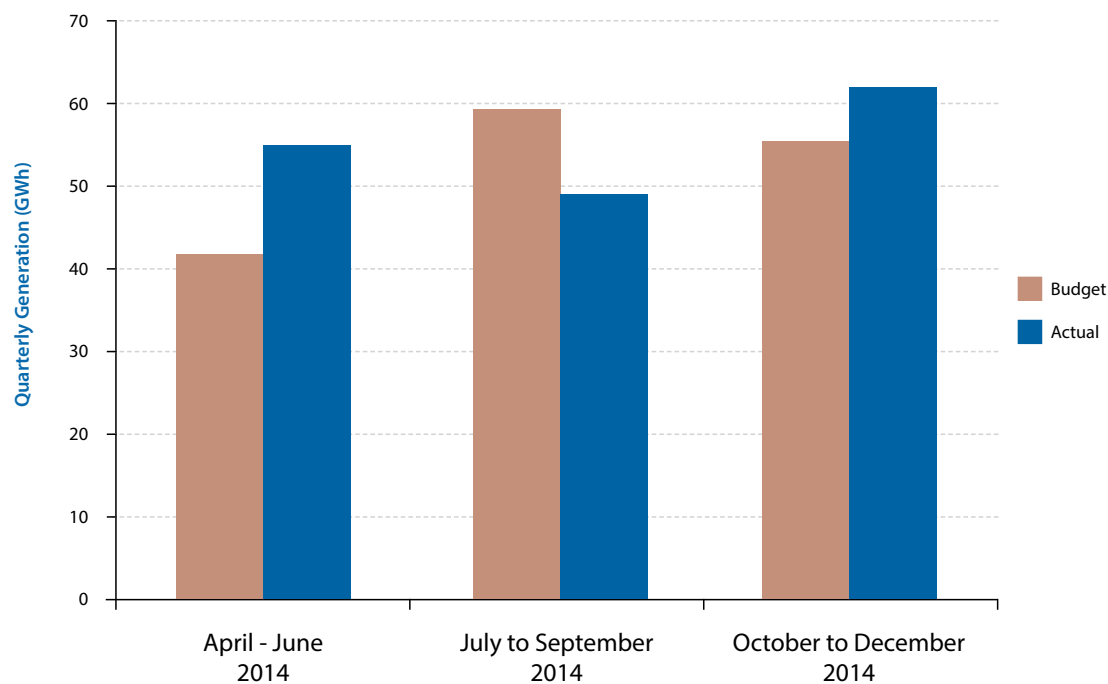
In total for the period, KCE produced 166 GWh, 5.6% above the mean average production for our schemes.

The average price achieved by our generation stations was \$70.14 per MWh for spot market sales, compared to a market average of \$68.76 per MWh at the nodes where generators trade.

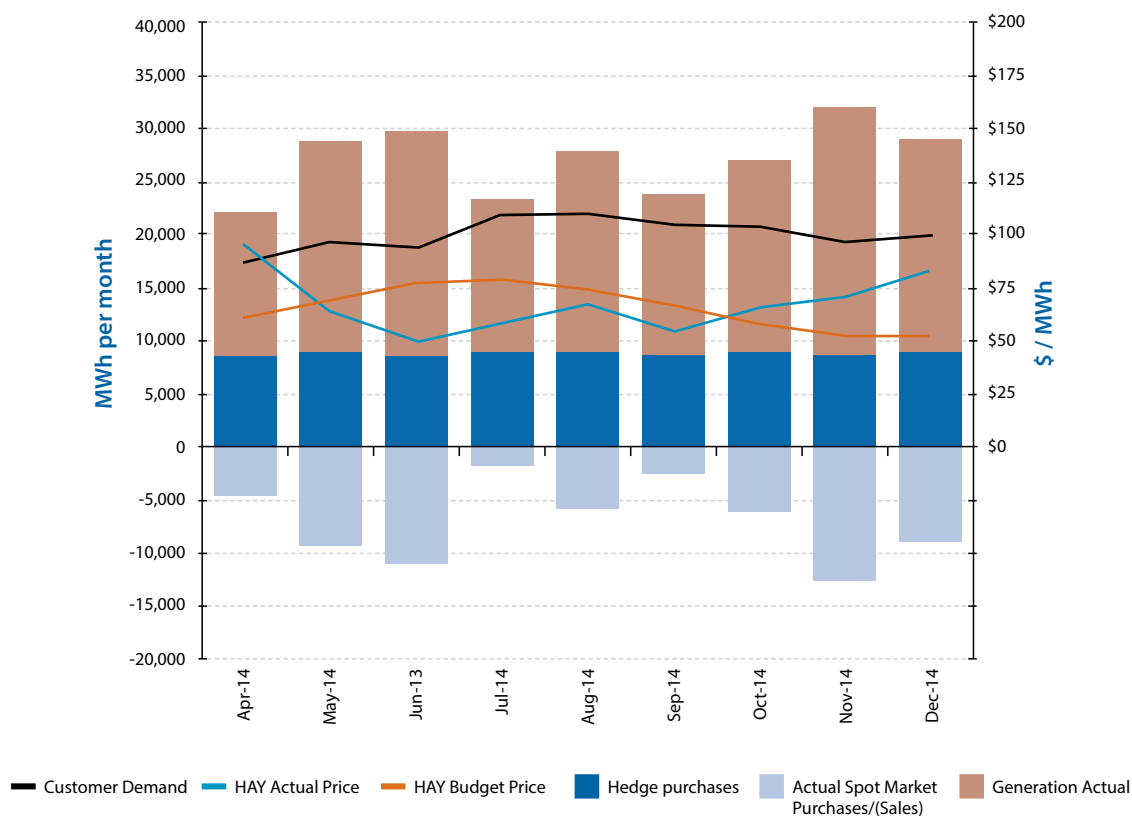
As in previous years, the spot price profile was considerably different than projected with lower prices in winter and significantly higher prices in April and December 2014.

The supply and demand volumes chart on page 12 highlights the effect of the actual spot price compared to the projected price. It shows the monthly output of our generation assets relative to demand.

## FY 2014 Generation Performance



## Supply and Demand Volumes





## Hedging

KCE continues its hedging strategy to cover expected exposure to the wholesale electricity market under dry conditions.

During the year, some of the company's hedge contracts expired and were replaced with new contracts. The chart below shows the average, annual wholesale spot price since 1998. The linear trend line tracks the long-term wholesale electricity price.

KCE generally buys hedges two years in advance of usage and this policy further reduces our exposure to volatility from year to year. The above chart shows that KCE has historically hedged its forward market exposure at prices equivalent to the long-term spot price trend line.

KCE's exposure to the hedge market continues to be a risk for the business. One of our strategic goals is to reduce this exposure, and KCE continues to seek opportunities to invest in new generation.

## Retail Operations

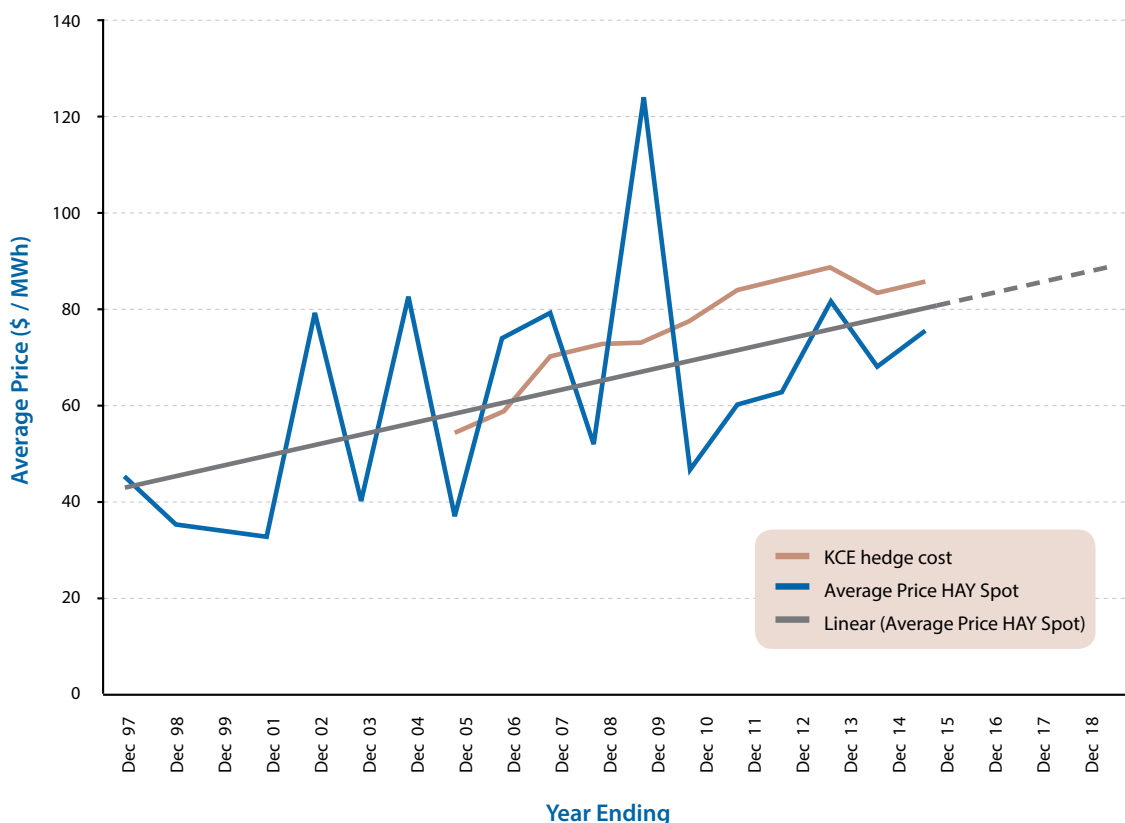
KCE maintained its strong retail position in its traditional trading area across all market segments and currently holds 70% of the market share in the King Country region. Additionally, our commercial team continued targeted, sustainable initiatives into adjacent geographic markets.

Retail sales volumes increased to 183 GWh for the nine month period from 159 GWh in the previous corresponding period, an increase of 15%, mainly due to our sales initiatives into the national small to medium sized business market.

During the period we introduced a new senior leadership position to lead the Retail Business in its next phase of growth. The newly formed General Manager Sales and Marketing role was appointed and is responsible for all aspects of sales, marketing and customer service.

Exemplary service delivery and strong customer relationships are at the heart of KCE's customer value proposition. Customer churn in our traditional trading area was 7.2%, significantly below the national average churn rate of 19.8% and a pleasing endorsement of performance, but we remain committed to continually lifting the bar. Mirroring the same service level to our new customers in different geographies presents a new challenge to KCE's sales team, but our commitment to maintaining this performance is unwavering.

## Average Wholesale Electricity Price



## Management Team



## Community Support

We have continued to contribute to a number of community initiatives in our local region. We take our role in the communities we are active in seriously by striving to contribute to the success and prosperity of a range of organisations that contribute to our communities.

The Heartland Community Fund established at the beginning of 2014 successfully provided 28 grants for community groups in the regions we operate in.

In addition to the Heartland Community Fund, KCE continues to support Duffy Books in Homes, is the naming rights sponsor of community netball centres in Te Kuiti, Otorohanga and Taumarunui and is an associate sponsor of the Westpac Rescue Helicopter, which responded to 53 rescue missions in the King Country in 2014.

## Our People

KCE has a quality team of people who are our greatest business asset; our shareholders can be proud to support them. I would like to acknowledge and thank all individuals in our team for their dedication and hard work.

My team and I look forward to the coming year and remain focused on building the business further and delivering results and value for you, our shareholders.

**Rob Foster**  
Chief Executive Officer

# Environmental achievements lauded

This financial period we're particularly proud of the impressive number of elvers transferred through our longstanding fish management programme. This programme – required under our resource consents – has led KCE to become an expert in effective, simple fish transfer systems.

Essentially, many years ago KCE built special passageways in some of our dams that allow eels to migrate safely downstream each year. These eels migrate to the oceans where juvenile eels, called elvers, are born. Once born, the elvers migrate back up the rivers through the upstream passages. Each year hundreds of thousands of elvers move safely upstream past KCE power stations, thanks to these passageways.

We're pleased to say that Wairere and Mokauiti both had their second best years in terms of elvers transferred in 2014, with an impressive 90kg (around 213,000 elvers) transported upstream over the dams. This demonstrates that our passageways are successfully providing safe passage for this species.

In addition to our fish management programme, we contribute environmentally through supporting Department of Conservation fish dives at Kuratau, vegetation management and in particular weed control. We are also working continually with central government, regional council and district council to ensure policy and planning reflects the best long term sustainable operation of our schemes.

What's more, our Environmental Management System was established in mid-2013 to set guidelines on how KCE manages its environmental interests. An ongoing review of this system ensures continuous improvement.

We look forward to continually demonstrating our commitment to the environment via our fish management programme, vegetation management and adherence to our Environmental Management System.

We take environmental responsibility seriously, especially when it comes to maintaining the environment around our hydro power stations.



*Barney Aldridge, KCE power station operator, at Wairere Power Station with elvers, which are able to safely migrate upstream thanks to our ongoing fish management programmes.*



# Statement of Corporate Governance and Statutory Information

King Country Energy Limited (KCE) is a limited liability company, registered under the New Zealand Companies Act 1993. A copy of the company's constitution can be obtained from the company's registered office.

Directors are also directors of the subsidiary companies of KCE. Unless otherwise stated, their appointment is for the period covered by this report.

## Role of the Board of Directors

The directors of KCE are elected by the shareholders and are responsible for the strategic direction of the group, with a focus being on protecting and enhancing the value of KCE's business in the interests of the company and for all its shareholders and key stakeholders.

The board draws on the skills, knowledge and experience of directors, using accepted corporate governance principles to contribute to the performance of the group.

The board's role includes monitoring management's implementation of the company strategy, approving the annual budget, reviewing the financial performance to that budget and ensuring the integrity of reporting.

The board is responsible for ensuring there are effective audit, risk management and compliance policies and systems in place to protect the assets of KCE and minimise the risk of operating outside legal requirements and acceptable risk parameters. This includes monitoring compliance with regulatory requirements and ensuring effective delegations are operating. The board monitors and manages the performance of the Chief Executive Officer.

## Operations of the Board

The KCE board had 8 full meetings during the period. As required, the board holds other meetings to discuss substantial projects or material changes in circumstances that may arise.

The board operates a hedging sub-committee consisting of two directors: Babu Bahirathan and Toby Stevenson. This sub-committee works in conjunction with management to evaluate the risk management strategies required to manage KCE's exposure to the wholesale electricity spot market.

The board has a remuneration sub-committee, which has three directors as members: Brian Needham, Babu Bahirathan and Toby Stevenson. The role of this sub-committee is to:

- review and recommend to the board the overall remuneration policy and annual review process for directors and senior executives of the company

- ensure KCE can attract, motivate and retain directors and executives who will create shareholder value
- undertake the performance review of the chief executive officer

## Directors' Attendance at Scheduled Meetings

	For period to 31 December 2014	For year to 31 March 2014
B J Gurney – Chairman (to 31 July 2014)	8	11
M Bahirathan	8	11
B L Needham	8	11
T W Stevenson – Chairman (from 1 August 2014)	7	11
T Cosgrove (appointed: 4 April 2014)	8	
<b>Meetings scheduled</b>	<b>8</b>	<b>11</b>

## Directors' Remuneration

	For period ended 31 December 2014	For year ended 31 March 2014
B J Gurney (Chairman to August 14)	\$28,720	\$43,920
S R Armstrong (resigned: 25 October 2013)	\$Nil	\$17,814
M Bahirathan	\$23,445	\$31,260
B L Needham	\$23,445	\$31,260
T W Stevenson (Chairman from August 14 and deputy Chairman to 31 July 2014)	\$30,265	\$35,420
D Abernethy (appointed: 3 September 2013, resigned: 5 February 2014)	\$Nil	\$13,446
T Cosgrove (appointed: 4 April 2014)	\$23,445	\$Nil
	<b>\$129,320</b>	<b>\$173,120</b>

## Director Benefits

No director of the company has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total emoluments received or due and receivable by directors as shown above).

## Directors' & Officers' Insurance

The company has arranged comprehensive policies of insurance which indemnify directors and officers against specific legal liabilities which may arise as a result of actions undertaken by them in the course of their duties, provided they operate in good faith and within the law. The directors' and officers' insurance cover during the year was \$20 million. During the year the company paid insurance premiums totaling \$25,465 (2014: \$24,465) relating to directors and officers liability insurance. The policies do not specify the premiums for individual directors and officers.

## Director Shareholdings

	Number held at 31 December 2014	Number held at 31 March 2014
B J Gurney	4,730	4,730
B L Needham - beneficial interest	4,852	4,262

## Other Directorships

### Brian John Gurney (Chairman)

Chairman – King Country Electric Power Trust (retired:  
26 March 2014)

### Mahadevan Bahirathan

Nova Energy Ltd, NEL Farms Ltd and Crest Energy Ltd  
BMG Group Ltd – non-Todd directorship

### Brian Leslie Needham

### Toby William Stevenson

Lulu Holdings Ltd, TWS Consulting Ltd

### Tim Cosgrove (appointed: 4 April 2014)

Concept Developments (2009) Limited, Crest Energy  
Limited, T & L Limited

## Interests Register

The company and its subsidiaries are required to maintain an interests register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests register for the company is available for inspection at the head office of the company.

## Use Of Company Information

No director issued a notice requesting to use information received in their capacity as a director which would not otherwise be available to the director.

## Twenty Largest Shareholders

The names of the twenty largest shareholders as at 31 December 2014 are listed below:

Name	Number held	%
Nova Energy Limited	13,685,521	54.1
King Country Electric Power Trust	5,057,142	19.9
H & G Limited	288,264	1.1
JBWere (NZ) Nominees Limited	244,848	1.0
Leveraged Equities Finance Limited	176,944	0.7
P K Guy & A E Guy & J E C Anderson	124,000	0.5
A D Maxwell	76,456	0.3
Paradise Finance Ltd	75,040	0.3
ASB Nominees Ltd	74,000	0.3
A J Nation & S C Nation & P G Brown	58,640	0.2
General Finance Holdings Limited	50,126	0.2
AJ Nation, JD Hammond and TA Nation	42,164	0.2
SC Nation, JA Nation and K J Young	42,163	0.1
West Coast Capital Investments Limited	27,929	0.1
AP Thomas and GE Thomas Partnership	27,500	0.1
JM Clark and A R Gough	25,000	0.1
JB Were (NZ) Nominees Limited	25,000	0.1
L K Falkner	23,000	0.1
R G Tweedie and K M Tweedie	22,000	0.1
Crusader Meats NZ Limited	21,869	0.1
	<b>20,167,606</b>	<b>79.7</b>

The distribution of the shareholdings as at 31 December 2014 is as follows:

Holdings Ranges	Holders	Total Units	%
1-1,000	4,842	2,092,790	8.27
1,001-5,000	1,354	2,318,513	9.16
5,001-10,000	52	409,752	1.62
10,001-100,000	37	914,503	3.61
100,001-10,000,000	6	19,576,719	77.34
	<b>6,291</b>	<b>25,312,277</b>	<b>100.0</b>

## Employee Remuneration

Employees who received remuneration and other benefits during the period ended 31 December 2014 exceeding \$100,000 were:

### Continuing Employees:

Remuneration Range	Number of Employees	
	9 Month Period to 31 December 2014	Year to 31 March 2014
\$100,000 - \$110,000	2	
\$110,000 - \$120,000	1	1
\$120,000 - \$130,000		
\$130,000 - \$140,000	1	
\$140,000 - \$150,000		2
\$160,000 - \$170,000	1	1
\$180,000 - \$190,000		1
\$190,000 - \$200,000		
\$280,000 - \$290,000		
\$320,000 - \$330,000		
\$340,000 - \$350,000	1	
\$370,000 - \$380,000		1

## Donations

No donations were made during the period ending \$Nil 31 December 2014 (2014: \$Nil).

## Auditors

The remuneration for services provided by auditors for the current year is set out in Note 2 to the Financial Statements.

The principal auditor for the group is Ernst & Young. During the current year, no services other than audit services were provided by Ernst & Young.



# Directors' Responsibility Statement

**The Directors are pleased to present the financial statements of King Country Energy Limited and Group for the period ended 31 December 2014.**

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Group as at 31 December 2014 and its financial performance and cash flows for the 9 months ended on that date.

The Directors consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept that enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Directors consider they have taken adequate steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Board of Directors of King Country Energy Limited authorised these financial statements, set out on pages 20 to 51, for issue on 27 February 2015.

For and on behalf of the Board



**Toby Stevenson**  
Chairman



**Brian Needham**  
Director

## Statement of Comprehensive Income

for the nine months ended 31 December 2014

	Note	Group		Parent	
		9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
Operating Revenue	1	37,732	41,781	7,566	9,158
Operating Expenses	2	(29,466)	(35,704)	(2,690)	(3,442)
Financing Costs		(1,413)	(1,419)	(1,413)	(1,419)
<b>Total Expenses</b>		<b>(30,879)</b>	<b>(37,123)</b>	<b>(4,103)</b>	<b>(4,861)</b>
<b>Profit Before Financial Instruments Gains &amp; Losses</b>		<b>6,853</b>	<b>4,658</b>	<b>3,463</b>	<b>4,297</b>
Fair Value Movement on Derivatives Gain/(Loss)	9	(1,532)	2,527	(300)	121
<b>Profit Before Tax Expense</b>		<b>5,321</b>	<b>7,185</b>	<b>3,163</b>	<b>4,418</b>
Income Tax Expense	3	(1,483)	(2,115)	658	620
<b>Profit after Tax Expense</b>		<b>3,838</b>	<b>5,070</b>	<b>3,821</b>	<b>5,038</b>
<b>Other Comprehensive Income:</b>					
Reverse Revaluation on Asset Impairment		-	(952)	-	(322)
Income Tax Expense on items of Other Comprehensive Income	3	-	267	-	90
<b>Other Comprehensive Income for the Period Net of Tax</b>		<b>-</b>	<b>(685)</b>	<b>-</b>	<b>(232)</b>
<b>Total Comprehensive Income for the Period</b>		<b>3,838</b>	<b>4,385</b>	<b>3,821</b>	<b>4,806</b>

No items disclosed in Other Comprehensive Income are to be reclassified to Profit or Loss in subsequent periods.

All reported Revenues, Expenses and Profit After Tax are attributable to the owners of King Country Energy Ltd.

		Group		Parent	
		9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
<b>Earnings per Share</b>					
Earnings per share (Basic and Diluted) from continuing operations attributable to the ordinary equity holders of the company	16	\$0.15	\$0.20	-	-

The above Statement of Comprehensive Income should be read in conjunction with Notes to the Financial Statements on pages 30 to 51.

## Statement of Changes in Equity

for the nine months ended 31 December 2014

	Note	Group		Parent	
		9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
Opening Equity		133,070	134,831	55,228	56,568
Total Comprehensive Income Attributable to Owners		3,838	4,385	3,821	4,806
Purchase of Treasury Stock	5	-	(11)	-	(11)
Dividends Paid to Shareholders	17	(6,156)	(6,135)	(6,156)	(6,135)
<b>Balance at the End of the Period</b>		<b>130,752</b>	<b>133,070</b>	<b>52,893</b>	<b>55,228</b>
<b>Reconciliation of Movement in Equity</b>					
<b>Share Capital</b>					
Opening Balance		62,507	62,507	62,507	62,507
Cancellation of Treasury Stock		(7,201)	-	(7,201)	-
<b>Balance at the End of the Period</b>	4	<b>55,306</b>	<b>62,507</b>	<b>55,306</b>	<b>62,507</b>
<b>Treasury Stock Reserve</b>					
Opening Balance		(7,201)	(7,190)	(7,201)	(7,190)
Cancellation of Treasury Stock		7,201	-	7,201	-
Transaction Costs		-	(11)	-	(11)
<b>Balance at the End of the Period</b>	5	<b>-</b>	<b>(7,201)</b>	<b>-</b>	<b>(7,201)</b>
<b>Asset Revaluation Reserve</b>					
Opening Balance		73,557	74,242	102	334
Other Comprehensive Income		-	(685)	-	(232)
<b>Balance at the End of the Period</b>	5	<b>73,557</b>	<b>73,557</b>	<b>102</b>	<b>102</b>
<b>Retained Earnings</b>					
Opening Balance		4,207	5,272	(180)	917
Profit for the Period		3,838	5,070	3,821	5,038
Ordinary Dividends Paid	17	(6,156)	(6,135)	(6,156)	(6,135)
<b>Balance at the End of the Period</b>	6	<b>1,889</b>	<b>4,207</b>	<b>(2,515)</b>	<b>(180)</b>
<b>Closing Equity</b>		<b>130,752</b>	<b>133,070</b>	<b>52,893</b>	<b>55,228</b>

The above Statement of Changes in Equity should be read in conjunction with Notes to the Financial Statements on pages 30 to 51.



# Statement of Financial Position

as at 31 December 2014

	Note	Group		Parent	
		9 Months	Year	9 Months	Year
		31.12.14 \$'000	31.03.14 \$'000	31.12.14 \$'000	31.03.14 \$'000
Shareholders' Equity:					
Share Capital	4	55,306	62,507	55,306	62,507
Reserves	5	73,557	66,356	102	(7,099)
Retained Earnings	6	1,889	4,207	(2,515)	(180)
Total Equity		130,752	133,070	52,893	55,228
Represented by:					
Current Assets:					
Cash & Bank Balances		2,342	1,501	2,342	1,501
Trade & Other Receivables	7	5,357	3,627	138	163
Stock Held for Resale		1	-	-	-
Income Tax Receivable		-	-	3,214	1,584
Derivative Financial Instruments	9	-	68	-	68
Intercompany Balances	15	-	-	60,870	65,329
Total Current Assets		7,700	5,196	66,564	68,645
Non Current Assets:					
Plant, Property & Equipment	8	182,718	185,773	516	531
Derivative Financial Instruments	9	-	165	-	165
Investment in Subsidiaries	10	-	-	14,300	14,300
Intangible Assets	11	1,741	1,781	179	218
Total Non Current Assets		184,459	187,719	14,995	15,214
Total Assets		192,159	192,915	81,559	83,859
Current Liabilities:					
Trade & Other Creditors		1,431	2,003	149	388
Customer Credit Balances		596	523	-	-
Borrowings	12	848	548	848	548
Employee Entitlements		308	333	82	151
Income Tax Payable		779	327	-	-
Derivative Financial Instruments	9	1,191	965	22	7
Total Current Liabilities		5,153	4,699	1,101	1,094
Non Current Liabilities:					
Borrowings	12	27,538	27,469	27,538	27,469
Derivative Financial Instruments	9	1,896	823	52	-
Deferred Tax	3	26,820	26,854	(25)	68
Total Non Current Liabilities		56,254	55,146	27,565	27,537
Total Liabilities		61,407	59,845	28,666	28,631
Net Assets		130,752	133,070	52,893	55,228

The above Balance Sheet should be read in conjunction with Notes to the Financial Statements on pages 30 to 51.

# Statement of Cash Flows

for the nine months ended 31 December 2014

Note	Group		Parent	
	9 Months	Year	9 Months	Year
	31.12.14 \$'000	31.03.14 \$'000	31.12.14 \$'000	31.03.14 \$'000
<b>Cash Flows from Operating Activities</b>				
<b>Cash was Received from:</b>				
Electricity Receipts from Customers	29,695	38,188	-	-
Interest Received	59	52	1,966	2,158
Other Receipts from Customers	5,040	4,623	-	-
	34,794	42,863	1,966	2,158
<b>Cash was Applied to:</b>				
Payment for Electricity	(11,608)	(17,514)	-	-
Settlement of Derivatives	(1,433)	(1,841)	-	-
Payment for Line Charges	(3,228)	(2,674)	-	-
Payment to Other Suppliers	(5,289)	(5,152)	(1,544)	(1,084)
Payments to Employees	(2,656)	(3,343)	(1,275)	(1,498)
Income Tax Paid	(1,065)	(1,353)	(1,065)	(1,353)
Interest on Borrowings	(1,380)	(1,406)	(1,380)	(1,406)
	(26,659)	(33,283)	(5,264)	(5,341)
<b>Net Cash Inflow/(Outflow) from Operating Activities</b>	<b>8,135</b>	<b>9,580</b>	<b>(3,298)</b>	<b>(3,183)</b>
<b>Cash Flows from Investing Activities</b>				
<b>Cash was Received From:</b>				
Net Advances From Subsidiaries	-	-	10,060	9,759
Sale of Fixed Assets	107	67	30	-
	107	67	10,090	9,759
<b>Cash was Applied to:</b>				
Fixed Assets Purchases	(1,613)	(3,126)	(163)	(55)
	(1,613)	(3,126)	(163)	(55)
<b>Net Cash Inflow/(Outflow) from Investing Activities</b>	<b>(1,506)</b>	<b>(3,059)</b>	<b>9,927</b>	<b>9,704</b>
<b>Cash Flows from Financing Activities</b>				
<b>Cash was Received From:</b>				
Borrowings	400	2,696	400	2,696
	400	2,696	400	2,696
<b>Cash was Applied to:</b>				
Purchase of Issued Share Capital	-	(1,903)	-	(1,903)
Borrowings	(32)	(38)	(32)	(38)
Dividends Paid	(6,156)	(6,135)	(6,156)	(6,135)
	(6,188)	(8,076)	(6,188)	(8,076)
<b>Net Cash Inflow/(Outflow) from Financing Activities</b>	<b>(5,788)</b>	<b>(5,380)</b>	<b>(5,788)</b>	<b>(5,380)</b>
<b>Total Net Cash Movement</b>	<b>841</b>	<b>1,141</b>	<b>841</b>	<b>1,141</b>
Opening Cash & Bank Balances	1,501	360	1,501	360
<b>Closing Cash &amp; Bank Balances</b>	<b>2,342</b>	<b>1,501</b>	<b>2,342</b>	<b>1,501</b>

5

## Statement of Cash Flows

for the nine months ended 31 December 2014

		Group		Parent	
Reconciliation with Operating Profit	Note	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
Profit after Tax per Statement of Comprehensive Income		3,838	5,070	3,821	5,038
Non Cash Items					
Loss on Disposal of Fixed Assets	2	3	2	23	-
Depreciation & Impairment	2	4,598	6,569	164	540
Change in Fair Value of Financial Instruments		1,532	(2,527)	300	(121)
Transfer of Tax from Subsidiaries		-	-	-	(2,496)
Increase / (Decrease) in Deferred Taxation Through Profit	3	(34)	687	(93)	(99)
Dividend from Subsidiaries		-	-	(5,600)	(7,000)
		6,099	4,731	(5,206)	(9,176)
Changes in Working Capital					
Increase / (Decrease) in Employee Entitlements		(25)	63	(69)	25
Increase in Tax Payable		452	76	-	-
(Increase) / Decrease in Tax Receivable		-	-	(1,630)	622
(Increase) / Decrease in Receivables		(1,730)	(43)	25	24
Increase / (Decrease) in Payables		(499)	(317)	(239)	284
		(1,802)	(221)	(1,913)	955
Net Cash Inflow / (Outflow) from Operating Activities per Statement of Cash Flows					
		8,135	9,580	(3,298)	(3,183)

The above Statement of Cash Flows should be read in conjunction with Notes to the Financial Statements on pages 30 to 51.

All cash and deposits are denominated in New Zealand Dollars

The Group operates a single bank account in the name of the Parent. The net advances to subsidiaries shown in the cash flow represents the net effect of subsidiary company transactions, passing through the single bank account, operated by the Parent.

Assets acquired through finance leases are included as part of asset purchases. The associated lease obligation is included as part of the movement in borrowings during the reporting period.



# Accounting Policies

for the period ended 31 December 2014

## Reporting Entity

King Country Energy Limited is a profit-oriented company domiciled in New Zealand, registered under the Companies Act 1993 and whose shares are traded on Unlisted. King Country Energy Limited is an issuer in terms of the Securities Act 1978. These financial statements are for the parent company King Country Energy Limited (the Parent) and the Group (the Group) comprising King Country Energy Limited, KCE Mangahao Limited, KCE Retail Limited and KCE Generation Limited.

The Group owns and operates several hydro electric generation stations and is an electricity retailer under the Electricity Act 1992. The nature of the business operated by the Group has not changed during the accounting period.

## Basis Of Preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and the requirements of the Companies Act 1993 and the Financial Reporting Act 2013.

The Group has changed its year end from 31 March to 31 December to match the year end of its Parent. The accounts presented are for the nine month period commencing on 1 April 2014 and ending on 31 December 2014. Comparative figures are for the twelve months ended 31 March 2014. Because of the shorter reporting period current period figures are not wholly comparable to prior period figures.

The financial statements have been prepared on the basis of historical cost modified by the fair valuation of certain assets and liabilities. The following assets and liabilities are stated at their fair value: financial instruments and certain fixed assets as identified in the specific accounting policies below.

The reporting and functional currency used in the preparation of these financial statements is New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000).

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise stated or where new standards have been adopted, as indicated below.

## Basis Of Consolidation

### Subsidiaries

Subsidiaries are entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be

consolidated from the date on which control is transferred out of the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. In preparing the consolidated financial statements all material inter-company transactions, dividends, balances and unrealised surpluses and deficits on transactions between Group Companies have been eliminated on consolidation.

Investments in subsidiaries held by the parent are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of Other Income in the separate Statement of Comprehensive Income of the parent entity and do not adjust the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries the parent will assess if the dividend has impaired the carrying value of the investment. To the extent that the carrying value of the investment exceeds the recoverable amount of the investment an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. This method of accounting involves recognising at acquisition date, separately from goodwill the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the subsidiary. Identifiable assets acquired and liabilities assumed are measured initially at their fair values at acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

## Accounting Estimates And Judgements

The Group's significant areas of estimation and critical judgments in these financial statements are as follows:

### Land, Buildings and Generation Plant and Equipment

The Group's land, buildings and generation plant and equipment are stated at fair value, less accumulated depreciation and impairment since date of valuation. Additions subsequent to the most recent value are shown at cost which is considered to be their fair value. The basis of the valuation is the net present value of the future earnings of the assets, excluding any reduction for costs associated with restoration and environmental rehabilitation. The significant inputs and assumptions that are used in the valuation model that require judgment include future electricity prices, projected operational and capital expenditure to maintain generation capacity, generation volumes, plant life and discount rates.

### Goodwill

The carrying value of goodwill is subject to an annual impairment test to ensure the carrying value does not exceed

the recoverable amount at balance date. For the purposes of impairment testing, goodwill is allocated to the cash generating unit to which it relates. Details of the assumptions made in valuing goodwill are contained in Note 11.

#### Retail Revenue

Retail revenue contains an estimate of the value of electricity consumed by customers from the date of their last meter reading until balance date. This estimate is made for each individual meter and is based upon the customer's historic consumption, recognising consumption varies with the time of year.

#### Restoration and Environmental Rehabilitation

No provision has been made for restoration and rehabilitation, as the Group has no requirement under its Resource Management Act consents to undertake such work. The Group maintains and refurbishes its generation assets and expects they will be available for use for an extended period of time. The Group expects Resource Management Act consents will continue to be renewed on similar terms and conditions upon expiry.

#### Financial Instruments

The Group uses derivative financial instruments to manage the cost of electricity purchased on the spot market. The fair value of such derivatives is calculated by reference to anticipated future electricity prices at the Grid Exit Point used to determine settlement of the instrument. Accounting judgment has been applied to determine future electricity prices, the Groups' discount rate and the credit risk of the counter party when determining fair values.

### Revenue

Revenue comprises the amounts received and receivable at balance date for electricity and related services supplied to customers in the ordinary course of business. Electricity revenue includes an accrual for estimated units sold but not billed at balance date. Electricity meters are read on the basis of constant cycles each year. Prompt payment discounts are deducted from revenue.

The Group may also receive revenue from network charges. Where the use of system agreement is an interposed agreement, the revenue from network charges is included within revenue, while under a conveyancing agreement the revenue will exclude those amounts relating to network charges.

Interest income is recognised in the profit or loss, in the Statement of Comprehensive Income, as it accrues using the effective interest rate method.

### Dividends

Dividends are only recognised as distributions in the period they are declared. Dividends proposed or paid after balance date are not recognised in the Financial Statements, but are disclosed in the Notes to the Financial Statements.

### Taxation

The income tax charged to the profit or loss, in the Statement of Comprehensive Income, includes both current and deferred tax and is calculated after allowing for non-taxable income and non-deductible expenditure. Income tax is recognised in the profit or loss, in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in Other Comprehensive Income, in which case the income tax is recognised in Other Comprehensive Income.

Current tax assets and liabilities for the current and prior periods are recorded at the amount expected to be recovered or paid to the taxation authorities based on the current period's taxable income/loss. The tax rates used to compute the amount are those that are enacted or substantively enacted at the Balance Sheet date.

Deferred tax is calculated using the balance sheet method which provides for temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the values used for taxation purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except for;

- The initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting profit nor taxable profit or loss;
- Taxable temporary differences associated with investments in subsidiaries and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that sufficient future taxable profits will be earned so as to utilize the asset. Deferred tax assets are reduced when it is deemed that future taxable profits will be insufficient to utilise the asset.

### Goods and Services Tax

The Statement of Comprehensive Income and Statement of Cash Flows are stated exclusive of GST. All items in the Balance Sheet are stated net of GST, with the exception of receivables and payables which include GST invoiced.

### Derivative Financial Instruments

Group companies use derivative financial instruments (derivatives) to manage the price risk associated with their purchase costs denominated in foreign currencies, variable interest rates on borrowings and purchasing and selling electricity on the spot market. The Group does not acquire derivatives for the purpose of trade or speculation. Such derivatives are initially recognised at their fair value on the date on which the Group makes a binding commitment

to accept the derivative (trade date). The fair value of each derivative is calculated at the end of each half year and full year. The fair value is deemed to be either the then market price for the derivative, if it is an instrument freely traded on an open market, or the net present value of the difference between prices set by the derivative and the expected cash flows generated by the derivative over its remaining contract life. Changes in the fair value of derivatives are reflected in the profit or loss, in the Statement of Comprehensive Income. Derivatives are carried as assets when their fair value is positive and liabilities when their fair value is negative.

## Accounts Receivable

Accounts receivable comprise electricity receivables and other receivables. Electricity receivables which generally have 30 day terms are stated initially at invoice value plus an estimate of consumption between the date of the customers last bill and year end, less an allowance for prompt payment discount. The allowance for prompt payment discount is calculated using historic experience of discounts applied. Allowance is made for any uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off during the period in which they are identified. Movements in the allowance for uncollectible amounts, prompt payment discounts and bad debts are recognised in the profit or loss, in the Statement of Comprehensive Income.

Other receivables are stated at amortised cost, where amortised cost represents either invoiced revenue, where the Group expects to receive payment in full, within the specified credit terms, or invoiced revenue less impairment, where the Group expects to receive only a portion of the debt, or settlement of all the debt but more than 180 days after due date. The amount of the impairment loss is the difference between the carrying value of the receivable and the net present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment loss is recognised in the profit or loss, in the Statement of Comprehensive Income.

## Investments

Investments including investments in subsidiaries are stated at cost in the Balance Sheet of the Parent.

## Property, Plant And Equipment

As a part of the formation of the Group, land, building and generation assets in existence at 31 March 1999 were revalued at the time by independent valuers on the basis of open market value for existing use.

Certain assets transferred from the Parent to subsidiary companies in March 1999 (when the Group was required by industry regulations to restructure its activities) were transferred at fair values and the uplifts in value are shown in the Group financial statements as revaluations.

Property, plant and equipment, and land, buildings and generation assets acquired after 31 March 1999 are initially recorded at cost. The cost of acquisition includes all costs directly attributable to the acquisition, including the costs of obtaining Resource Management Act consents and if applicable financing costs incurred directly on self constructed assets.

Capital expenditure is all expenditure on the creation of a new asset and any expenditure which results in a significant improvement of the original function of an existing asset.

Revenue expenditure is expenditure which restores an asset to its original condition and all expenditure incurred in maintaining and operating the Group's business.

Generation assets including land, buildings, plant and equipment are periodically revalued either by an independent valuer or by applying recent market evidence of asset values. Revaluations of these assets are conducted when directors are of the opinion that either market values or the future cash flow from these assets or the Group discount rate has materially changed, thereby giving rise to a change in asset values. These assets were last revalued on 31 December 2012. Where values change the movement is taken to Other Comprehensive Income, in the Statement of Comprehensive Income. Where no or insufficient revaluation is held for an asset, the impairment is charged to the profit or loss, in the Statement of Comprehensive Income.

Capital works under construction are valued at cost or less any assessed impairment. Project values are assessed at least annually to identify if any impairment in value is likely to have occurred. Impairment is the difference between the net present value of future cash flows from the project and the current project costs, plus the expected costs to complete the project. Any impairment is charged to the profit or loss, in the Statement of Comprehensive Income. Once the construction is completed, depreciation on these assets will begin.

Expenditure incurred on the investigation of prospective generation opportunities is stated at cost and is accumulated in respect of each identifiable generation opportunity. Expenditure is only carried forward to the extent that it is expected to be recouped through the successful development of a generation station or where activities on the project have not reached a stage which permits a reasonable assessment of the prospect of a successful development. Accumulated costs in relation to an abandoned or deferred development are written off in full in the profit or loss, in the Statement of Comprehensive Income, in the period in which the decision is made to abandon or defer the project. A regular periodic review is undertaken of each development to determine the appropriateness of continuing to carry forward costs in relation to the development.

## Depreciation

Depreciation of property, plant and equipment, other than freehold land is calculated so as to expense the cost of the assets, or their revalued amounts to their residual values over their useful lives as follows:

### Estimated Useful Lives

Land Improvements	80 years
Buildings	50 – 80 years
Generation Plant & Equipment	5 – 80 years
Motor Vehicles	4 years
Office Equipment & Furniture	3 – 20 years

Asset lives are reviewed annually.

## Leases

The determination of whether an arrangement is or contains a lease is based upon the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset, or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the lower of the fair value of the lease asset or the present value of the minimum lease payments. A corresponding lease liability is established and each lease payment is allocated between the liability and finance charge, so as to achieve a constant rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty the Group will obtain ownership by the end of the lease.

Leases that are not finance leases are operating leases, with lease payments recognised as an expense in the profit or loss, in the Statement of Comprehensive Income, in the periods the lease installments are payable.

## Impairment

The carrying value of goodwill is subject to impairment testing at each Balance Sheet date. The carrying values of other intangible assets are reviewed at each Balance Sheet date to determine whether there is any indication of impairment. If such an indication exists, the assets net recoverable value is estimated.

An impairment of an asset's value is recognised whenever its carrying amount exceeds its recovery amount. In assessing impairment, the Group may combine assets generating a separate identifiable cash flow (cash generating unit) and value these assets as if they were a single asset. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down. The impairment loss is recognised in the profit or loss in the Statement of Comprehensive Income, except to the extent that the asset or group of assets have been recorded at a revalued amount.

Impairment losses on revalued assets are first taken to Other Comprehensive Income if there is a surplus in respect of that asset.

The recoverable amount of an asset is the greater of their net disposal price and their value in use. Value in use is determined by discounting expected future net cash flow generated by the asset or cash generating unit. A pre-tax discount rate that recognises the current market time value of money and risks specific to the asset is used in the calculation.

## Goodwill And Intangible Assets

### Goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing at balance date to determine whether there has been any impairment to its value. Details of the test and its outcome are shown in Note 11. Any impairment loss is recognised in the profit or loss, in the Statement of Comprehensive Income.

### Computer Software

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These assets are amortised over up to five years on a straight line basis.

Costs associated with developing or maintaining computer programmes are recognised as an expense as incurred.

## Borrowings

All borrowings are recognised initially at fair value net of directly attributable transaction costs. The Group's financial liabilities include finance leases and bank borrowing.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss.

## Trade And Other Creditors

Trade and other creditors are carried at amortised cost and are not discounted because they are usually paid within 30 days of recognition. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that have not been settled at balance date. Included in Trade and other creditors are estimated amounts for work completed prior to balance date on projects that span balance date. Amounts are unsecured though the Group is required to provide undertakings from its bankers to the electricity market that it has sufficient funding to meet anticipated future spot market electricity purchases.



## Employee Entitlements

Employee entitlements to salaries and wages, non-monetary benefits, annual leave, long service leave and other benefits are recognised when they accrue to employees. This includes the estimated liability for salaries and wages, annual leave and long service leave as a result of services rendered by employees up to balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non accumulating sick leave are recognised when the leave is taken and are recognised at the rates paid or payable.

## Treasury Stock

Shares in the Parent acquired by any Group company are recognised at cost, including any costs of acquisition in the Treasury Stock Reserve in the Statement of Changes in Equity. The Reserve is not adjusted to reflect changes in the market value of shares held as treasury stock.

Treasury stock has been excluded from the payment and receipt of dividends.

## Statement Of Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

- (a) Operating activities include all transactions and other events that are not investing or financing activities.
- (b) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments can include securities not falling within the definition of cash.
- (c) Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- (d) Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.

## Segment Reporting

A business segment is a component of the Group that engages in business activities that earns revenues and incurs expenses and whose operating results are regularly reviewed by the Chief Executive Officer and Executive Management team to make decisions about resources to be allocated to the segment and assess its financial performance. In determining if a business segment exists, management will also consider the management structure within the Group and the information presented to the Board of Directors. The Group aggregates two or more operating segments offering like products and services when they have similar operational and economic characteristics.

## Application of Accounting Standards

The new standards and amendments to standards that became mandatory for the first time for the financial period beginning 1 April 2014 had been either early adopted by the Group or have no effect on presentation or content and therefore have not resulted in any changes to either the presentation of financial information or the financial information itself.

The Group has adopted the following new or amended standards and interpretations as of 1 April 2014.

NZ IAS 32 Amendments – Financial Instruments – Presentation. These amendments clarify the definition of off-setting arrangements.

NZ IFRIC 21 – Levies. This amendment clarifies the timing of the recognition of a liability to pay a levy.

Application of the new standards or amendments to existing standards has not resulted in any changes to either the presentation of financial information or the financial information itself as the Group is either currently compliant with the standard or the standard is not applicable to the Group.

The Group has elected not to early adopt the following applicable standards, which have been issued but are not yet effective:

Amendments to NZ IFRSs arising from the Annual Improvements Project (2010-2012) effective for periods beginning on or after 1 January 2015. These amendments will require some minor changes to information disclosure.

Amendments to NZ IFRSs arising from the Annual Improvements Project (2011-2013) effective for periods beginning on or after 1 January 2015. These amendments are not expected to have any impact on the financial statements.

Amendments to NZ IFRSs arising from the Annual Improvements Project (2012-2014) effective for periods beginning on or after 1 January 2016. These amendments are not expected to have any impact on the financial statements.

NZ IAS 16 and NZ IAS 36 clarifying acceptable methods of depreciation and amortization effective from 1 January 2015. These amendments are not expected to change current methods for depreciation and amortisation.

NZ IFRS 15 – Revenue from Contracts with Customers – establishes principles for reporting additional information on revenue from contracts with customers effective from 1 January 2017. Limited additional disclosure is expected.

NZ IFRS 9 – Financial Instruments – effective for periods beginning on or after 1 January 2018. This standard replaces part of IAS 39 and establishes two primary measurement categories for financial assets; amortised cost and fair value, with classification depending on an entity's business model and the contractual cash flow characteristics of the financial asset. The implementation date for this Standard continues to change so the Group will evaluate the potential effect of this standard closer to its final implementation date.

# Notes to the Financial Statements

for the nine months ended 31 December 2014

## 1 REVENUE

Included in Operating Revenue are the following items:

Sales of Electricity

Network Charges Recovered

Discount Allowed - Prompt Payment

Interest Received

Other Income

Dividends from Subsidiaries

**Total Operating Revenue**

## 2 EXPENSES

Included in Operating Expenses are the following items:

Purchase of Electricity

Derivative Expense on Electricity Purchases

Network Charges

**Depreciation - Property, Plant, Equipment**

Buildings

Generation Plant

Land Improvements

Motor Vehicles

Furniture, Plant & Equipment

Computer Software

**Impairment - Property, Plant, Equipment**

Buildings

Generation Plant

Bad Debts Written Off

Increase in Estimated Doubtful Debts

Audit Fees

Repairs & Maintenance

Employee Benefits

Directors Fees & Expenses

Loss on Sale of Fixed Assets

Insurance

Other Operating Expenses

**Total Operating Expenses**

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
36,604	42,066	-	-
2,636	1,888	-	-
(2,138)	(2,508)	-	-
59	52	1,966	2,158
571	283	-	-
-	-	5,600	7,000
<b>37,732</b>	<b>41,781</b>	<b>7,566</b>	<b>9,158</b>
13,170	16,113	-	-
1,457	1,578	-	-
3,316	2,759	-	-
100	143	-	9
3,984	5,241	-	-
2	1	-	-
76	100	15	15
143	201	107	159
43	226	42	211
<b>4,348</b>	<b>5,912</b>	<b>164</b>	<b>394</b>
-	146	-	146
250	511	-	-
<b>250</b>	<b>657</b>	<b>-</b>	<b>146</b>
81	118	-	-
55	5	-	-
64	59	64	64
900	1,313	283	322
2,742	3,407	1,205	1,511
169	200	169	200
3	2	23	-
827	1,038	51	66
2,084	2,543	731	739
<b>29,466</b>	<b>35,704</b>	<b>2,690</b>	<b>3,442</b>

## Notes to the Financial Statements

## 3

## Income Tax Expense

The major components of income tax expense are:

## Income Statement

*Current Income Tax*

Current Income Tax Charge  
Prior Period Adjustment

*Deferred Income Tax*

Temporary Differences in Current Period

Temporary Differences in Prior Years

### Reported Income Tax Expense

### Amounts (Credited) to Other Comprehensive Income

*Deferred Income Tax Related to Items in Other Comprehensive Income*

### Reversal on Impairment of Property Plant & Equipment

### Reported Tax Expense on Other Comprehensive Income

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
1,518	1,244	(565)	(666)
(1)	184	-	145
1,517	1,428	(565)	(521)
(34)	771	(93)	(54)
-	(84)	-	(45)
(34)	687	(93)	(99)
1,483	2,115	(658)	(620)
-	(267)	-	(90)
-	(267)	-	(90)

The amount of Income Tax attributable to the Operating Profit for the financial period differs from the prima facie tax payable on the Operating Profit Before Tax. The difference is reconciled as follows:

## INCOME TAX ATTRIBUTABLE TO PROFIT

Profit before Taxation  
Taxation thereon at 28%  
Non Assessable Income  
Non Deductible Expenditure  
Other  
Prior Period Adjustment

## Income Tax Expense

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
5,321	7,185	3,163	4,418
1,490	2,012	886	1,237
-	-	(1,568)	(1,960)
24	3	24	3
(30)	-	-	-
(1)	100	-	100
<b>1,483</b>	<b>2,115</b>	<b>(658)</b>	<b>(620)</b>

# Notes to the Financial Statements

for the nine months ended 31 December 2014

## DEFERRED TAXATION

The major components together with their movements of the deferred tax balances are as follows:

### Property Plant and Equipment

Opening Balance	(27,350)	(27,633)
Current Period Temporary Differences - Through Income	(419)	(73)
Reversal on Impairment of Assets - Through Equity	-	267
Correction to Prior Year	-	89

### Balance at the End of the Period

### Employee Benefits

Opening Balance	56	50
Current Period Temporary Differences - Through Income	7	13
Correction to Prior Year	-	(7)

### Balance at the End of the Period

### Financial Instruments

Opening Balance	433	1,143
Current Period Temporary Differences - Through Income	431	(708)
Correction to Prior Year	-	(2)

### Balance at the End of the Period

### Other Provisions

Opening Balance	7	6
Current Period Temporary Differences - Through Income	15	(3)
Correction to Prior Year	-	4

### Balance at the End of the Period

### Total

Opening Balance	(26,854)	(26,434)
Current Period Temporary Differences - Through Income	34	(771)
Reversal on Impairment of Assets - Through Equity	-	267
Correction to Prior Year	-	84

### Balance at the End of the Period

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
(27,350)	(27,633)	(31)	(253)
(419)	(73)	19	83
-	267	-	90
-	89	-	49
<b>(27,769)</b>	<b>(27,350)</b>	<b>(12)</b>	<b>(31)</b>
56	50	29	25
7	13	(13)	6
-	(7)	-	(2)
<b>63</b>	<b>56</b>	<b>16</b>	<b>29</b>
433	1,143	(66)	(29)
431	(708)	87	(35)
-	(2)	-	(2)
<b>864</b>	<b>433</b>	<b>21</b>	<b>(66)</b>
7	6	-	-
15	(3)	-	-
-	4	-	-
<b>22</b>	<b>7</b>	<b>-</b>	<b>-</b>
(26,854)	(26,434)	(68)	(257)
34	(771)	93	54
-	267	-	90
-	84	-	45
<b>(26,820)</b>	<b>(26,854)</b>	<b>25</b>	<b>(68)</b>

All the companies comprising the Group are part of the same Consolidated Income Tax Group. Therefore deferred tax assets and liabilities have been offset within the Balance Sheet.

## IMPUTATION CREDIT ACCOUNT

### Balance at the End of the Period

Group	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
<b>86</b>	<b>956</b>

The Group has a single Imputation Credit Account that includes imputation credits earned by the Parent and its subsidiaries.



## Notes to the Financial Statements

for the nine months ended 31 December 2014

### 4 SHARE CAPITAL

#### Issued and paid up capital

Balance at Beginning of the Year Ordinary Shares

Cancellation of Treasury Stock

**Balance at the End of the Period**

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
62,507	62,507	62,507	62,507
(7,201)	-	(7,201)	-
<b>55,306</b>	<b>62,507</b>	<b>55,306</b>	<b>62,507</b>

As at 31 December 2014 there were 25,312,277 ordinary shares authorised, and fully paid (31 March 2014: 26,379,474). At the same date no fully paid shares (31 March 2014: 1,067,197) were held by the Group as Treasury Stock following the cancellation of all Treasury Stock during the period. All shares have no par value.

All ordinary shares issued rank equally with one vote attached to each fully paid ordinary share except for Treasury Stock which is not voted and does not receive a dividend.

### 5 RESERVES

#### Treasury Stock Reserve

Balance at Beginning of the Period

Cancellation of Treasury Stock

Transaction Costs

**Balance at the End of the Period**

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
(7,201)	(7,190)	(7,201)	(7,190)
7,201	-	7,201	-
-	(11)	-	(11)
<b>-</b>	<b>(7,201)</b>	<b>-</b>	<b>(7,201)</b>

As at 31 December 2014 there were no shares in the pool of Treasury Stock (March 2014: 1,067,197) as all Treasury Stock was cancelled during the period.

#### Asset Revaluation Reserve

Balance at Beginning of the Period

Reversal of revaluation on Impairment

Deferred Tax on Revalued Assets

**Balance at the End of the Period**

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
73,557	74,242	102	334
-	(952)	-	(322)
-	267	-	90
<b>73,557</b>	<b>73,557</b>	<b>102</b>	<b>102</b>

The Asset Revaluation Reserve holds the uplift to the value of fixed assets subject to periodic revaluation. An asset disposal or write-down in value following a revaluation is charged to the Reserve provided the Reserve contains a prior valuation uplift at least equal to the impairment suffered by the asset. An appropriate portion of the Reserve is released to Retained Earnings upon the sale of revalued assets. Also charged to the Revaluation Reserve are the deferred tax implications of revaluations and disposals.

## Notes to the Financial Statements

for the nine months ended 31 December 2014

6

### RETAINED EARNINGS

Balance at Beginning of the Period
Profit after Tax Expense
Dividends
<b>Balance at the End of the Period</b>

7

### ACCOUNTS RECEIVABLE

Electricity Receivables
Other Receivables
Prepayments
<b>Balance at the End of the Period</b>

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
4,207	5,272	(180)	917
3,838	5,070	3,821	5,038
(6,156)	(6,135)	(6,156)	(6,135)
<b>1,889</b>	<b>4,207</b>	<b>(2,515)</b>	<b>(180)</b>
2,336	1,099	-	-
2,156	1,825	1	-
865	703	137	163
<b>5,357</b>	<b>3,627</b>	<b>138</b>	<b>163</b>

Accounts Receivable are subject to impairment due to credit losses. Such impairment is recorded in a collective provision for uncollectable amounts. Amounts are deemed uncollectable when either they are placed in the hands of a collection agency, which is generally 90 days after payment is due, or no payment has been received from a customer for 90 days. Supply is normally stopped to customers more than 65 days overdue and is not re-commenced until payment in full is received. Customers with a poor credit history are required to either provide a deposit or are supplied meters that require advance payment for electricity consumed.

Where a customer's account is overdue but the customer has entered a payment arrangement with the Group and is maintaining the payment arrangement, the account is deemed to be current and no allowance is made for impairment. At balance date the Group has 9 (March 2014: 2) customers who are medically dependent on electricity and who are overdue.

The movement in the impairment allowance is as follows:

Balance at Beginning of the Period
Additions to the Impairment Allowance
<b>Balance at End of the Period</b>

At Balance Date the aging analysis of Accounts Receivable is as follows:

Current
Overdue but not Impaired
Overdue and Impaired
Impairment Allowance

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
25	20	-	-
55	5	-	-
<b>80</b>	<b>25</b>	<b>-</b>	<b>-</b>
4,333	2,565	1	-
161	359	-	-
78	25	-	-
(80)	(25)	-	-
<b>4,492</b>	<b>2,924</b>	<b>1</b>	<b>-</b>

## Notes to the Financial Statements

for the nine months ended 31 December 2014

8

### PROPERTY, PLANT AND EQUIPMENT

#### Generation Plant & Equipment

Fair Value	200,144	198,921
Accumulated Depreciation and Impairment	(37,023)	(33,039)
<b>Net Carrying Amount</b>	<b>163,121</b>	<b>165,882</b>
Net Carrying Amount Beginning of Period	165,882	172,228
Additions	1,473	38
Impairment Through Profit or Loss *	(250)	(513)
Impairment Through Other Comprehensive Income	-	(630)
Depreciation Charge for the Period	(3,984)	(5,241)
<b>Balance at the End of the Period</b>	<b>163,121</b>	<b>165,882</b>
Carrying Amount at Historical Cost	94,450	96,534

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
		-	-
		-	-
		-	-
		-	-
		-	-
		-	-
		-	-
		-	-
		-	-

\* The runner at Mangahao was replaced during the period and the old runner is, now held as a spare. Consequently the asset's value-in-use was reduced below its previous carrying value and the asset was impaired by \$250,000.

#### Land, and Land Improvements

Fair Value	5,183	5,166
Accumulated Depreciation and Impairment	(14)	(12)
<b>Net Carrying Amount</b>	<b>5,169</b>	<b>5,154</b>
Net Carrying Amount Beginning of Period	5,154	5,170
Additions	21	-
Disposals	(4)	(15)
Depreciation Charge for the Period	(2)	(1)
<b>Balance at the End of the Period</b>	<b>5,169</b>	<b>5,154</b>
Carrying Amount at Historical Cost	1,867	1,847

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
		116	115
		-	-
		116	115
		115	115
		1	-
		-	-
		-	-
		116	115
		51	50

#### Buildings

Fair Value	10,312	10,312
Accumulated Depreciation and Impairment	(993)	(893)
<b>Net Carrying Amount</b>	<b>9,319</b>	<b>9,419</b>
Net Carrying Amount Beginning of Period	9,419	10,043
Disposals	-	(13)
Impairment Through Profit or Loss	-	(146)
Impairment Through Other Comprehensive Income	-	(322)
Depreciation Charge for the Period	(100)	(143)
<b>Balance at the End of the Period</b>	<b>9,319</b>	<b>9,419</b>
Carrying Amount at Historical Cost	5,675	5,738

## Notes to the Financial Statements

for the nine months ended 31 December 2014

### Motor Vehicles

Cost	731	732
Accumulated Depreciation and Impairment	(177)	(211)

### Net Carrying Amount

Net Carrying Amount Beginning of Period	521	431
Additions	219	229
Disposals	(110)	(39)
Depreciation Charge for the Period	(76)	(100)

### Balance at the End of the Period

### Office Equipment & Furniture

Cost	1,580	1,502
Accumulated Depreciation and Impairment	(1,142)	(1,015)

### Net Carrying Amount

Net Carrying Amount Beginning of Period	487	513
Additions	78	154
Depreciation Charge for the Period	(127)	(180)

### Balance at the End of the Period

### Leased Office Equipment & Furniture

Cost	104	104
Accumulated Depreciation and Impairment	(40)	(24)

### Net Carrying Amount

Net Carrying Amount Beginning of Period	80	101
Depreciation Charge for the Period	(16)	(21)

### Balance at the End of the Period

### Development and Construction Projects

Development Projects at Cost	4,053	4,230
------------------------------	-------	-------

### Net Carrying Amount

Net Carrying Amount Beginning of the Period	4,230	1,567
Additions	1,273	2,736
Transfers	(1,450)	(73)

### Balance at the End of the Period

### Total Property, Plant & Equipment

	Group		Parent	
	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
<b>Motor Vehicles</b>				
Cost	731	732	110	124
Accumulated Depreciation and Impairment	(177)	(211)	(19)	(44)
<b>Net Carrying Amount</b>	<b>554</b>	<b>521</b>	<b>91</b>	<b>80</b>
Net Carrying Amount Beginning of Period	521	431	80	95
Additions	219	229	79	-
Disposals	(110)	(39)	(53)	-
Depreciation Charge for the Period	(76)	(100)	(15)	(15)
<b>Balance at the End of the Period</b>	<b>554</b>	<b>521</b>	<b>91</b>	<b>80</b>
<b>Office Equipment &amp; Furniture</b>				
Cost	1,580	1,502	890	865
Accumulated Depreciation and Impairment	(1,142)	(1,015)	(706)	(615)
<b>Net Carrying Amount</b>	<b>438</b>	<b>487</b>	<b>184</b>	<b>250</b>
Net Carrying Amount Beginning of Period	487	513	250	363
Additions	78	154	25	25
Depreciation Charge for the Period	(127)	(180)	(91)	(138)
<b>Balance at the End of the Period</b>	<b>438</b>	<b>487</b>	<b>184</b>	<b>250</b>
<b>Leased Office Equipment &amp; Furniture</b>				
Cost	104	104	104	104
Accumulated Depreciation and Impairment	(40)	(24)	(40)	(24)
<b>Net Carrying Amount</b>	<b>64</b>	<b>80</b>	<b>64</b>	<b>80</b>
Net Carrying Amount Beginning of Period	80	101	80	101
Depreciation Charge for the Period	(16)	(21)	(16)	(21)
<b>Balance at the End of the Period</b>	<b>64</b>	<b>80</b>	<b>64</b>	<b>80</b>
<b>Development and Construction Projects</b>				
Development Projects at Cost	4,053	4,230	61	6
<b>Net Carrying Amount</b>	<b>4,053</b>	<b>4,230</b>	<b>61</b>	<b>6</b>
Net Carrying Amount Beginning of the Period	4,230	1,567	6	18
Additions	1,273	2,736	55	-
Transfers	(1,450)	(73)	-	(12)
<b>Balance at the End of the Period</b>	<b>4,053</b>	<b>4,230</b>	<b>61</b>	<b>6</b>
<b>Total Property, Plant &amp; Equipment</b>	<b>182,718</b>	<b>185,773</b>	<b>516</b>	<b>531</b>



## Notes to the Financial Statements

for the nine months ended 31 December 2014

Land and land improvements, buildings and generation plant, property and equipment owned by the Group was revalued as at 31 December 2012 to fair value for financial reporting purposes. The fair value of land and land improvements and buildings was assessed by reference to market information for the relevant geographic area. The fair value for generation plant, property and equipment was assessed using economic value methodology based on the discounted cash flows able to be generated by the relevant plant, property and equipment. A discount rate of 8.0% was applied. Furniture, plant and equipment integral to the operation of generation stations was also included in the valuation. The value of generation plant was determined by independent valuers, PwC, Chartered Accountants on 31 December 2012. Non-generation land and buildings were valued by independent registered valuers, Quotable Value New Zealand. Directors consider the carrying values of fixed assets at 31 December 2014 to be their fair value.

The valuation range provided by PwC was between \$179.9m and \$196.2m with directors adopting a mid-point valuation of \$188.0m as at 31 December 2012. The factors having the greatest influence on value are future electricity prices, generation volumes and the weighted average cost of capital applied to cash flows.

PwC have derived their own electricity price path but it is similar to that used by the Group in its financial modelling. The price path accounts for expected changes in supply and demand for electricity, the cost of new generation capacity and in the short term prices for future supply set in the derivatives market.

Generation output is based on long run historic average output by plant. Output in any one year will be affected by hydrology and plant availability. Resource consents are assumed to continue under their existing terms and conditions

The cost of capital has been calculated by PwC and is based upon market information for companies with a similar risk profile to the Group. Changes to the risk free rate of return (sovereign debt) will change the cost of capital as will a change in the perception of the risk associated with electricity generation.

Assumptions	Electricity price path	Generation Output	Cost of Capital
	\$75/MWh to \$128.50/MWh (nominal 2028)	192GWh	8.0%

The table below shows the impact on the mid point valuation adopted by the directors of changes to the key valuation assumptions described above and the effect of those changes on the financial statements. The liability movement is deferred tax which has been calculated at a rate of 28%. Sufficient revaluation reserves are available to offset reductions in value so no profit or loss impact is assumed.

Sensitivity	Value Change \$'000	Financial Statement Impact			
		Profit & Loss \$'000	Non Current Assets \$'000	Non Current Liabilities \$'000	Equity \$'000
Increase Electricity Price 10.0%	21,000	-	21,000	5,880	15,120
Decrease Electricity Price 10.0%	(21,000)	-	(21,000)	(5,880)	(15,120)
Increase Cost of Capital 0.5%	(14,000)	-	(14,000)	(3,920)	(10,080)
Decrease Cost of Capital 0.5%	18,000	-	18,000	5,040	12,960
Increase Generation Output 5.0%	10,000	-	10,000	2,800	7,200
Decrease Generation Output 5.0%	(11,000)	-	(11,000)	(3,080)	(7,920)

## Notes to the Financial Statements

for the nine months ended 31 December 2014

9

### DERIVATIVE FINANCIAL INSTRUMENTS

Movements in the asset/(liability) value of Derivative Financial Instruments over the nine months have been:

#### Level Two Derivatives

Opening Carrying Value  
Revaluation of Derivatives

#### Balance at the End of the Period Level Two

#### Level Three Derivatives

Opening Carrying Value  
Derivatives Acquired at Fair Value  
Revaluation of Derivatives

#### Balance at the End of the Period Level Three

#### Balance at the End of the Period All Levels

Reported gain/(loss) on Derivative Financial Instruments comprises the following:

#### Level Two Derivatives

Revaluation of Derivatives

#### Total (Loss)/Gain on Valuation

#### Level Three Derivatives

Settlement Included in Operating Expenses

#### Total (Loss)/Gain Settled in Cash

Acquisition of Derivatives at Fair Value  
Revaluation of Derivatives

Total Gain/(Loss) on Valuation

#### Total (Loss)/Gain on Derivatives

#### Total Gain/(Loss) on All Derivative Levels

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
226	105	226	105
(300)	121	(300)	121
<b>(74)</b>	<b>226</b>	<b>(74)</b>	<b>226</b>
(1,781)	(4,187)	-	-
(398)	(191)	-	-
(834)	2,597	-	-
<b>(3,013)</b>	<b>(1,781)</b>	<b>-</b>	<b>-</b>
<b>(3,087)</b>	<b>(1,555)</b>	<b>(74)</b>	<b>226</b>
(300)	121	(300)	121
<b>(300)</b>	<b>121</b>	<b>(300)</b>	<b>121</b>
(1,457)	(1,578)	-	-
<b>(1,457)</b>	<b>(1,578)</b>	<b>-</b>	<b>-</b>
(398)	(191)	-	-
(834)	2,597	-	-
(1,232)	2,406	-	-
<b>(2,689)</b>	<b>828</b>	<b>-</b>	<b>-</b>
<b>(2,989)</b>	<b>949</b>	<b>(300)</b>	<b>121</b>

# Notes to the Financial Statements

for the nine months ended 31 December 2014

## Instruments Used by the Group

Derivative financial instruments comprise electricity contracts for difference, interest rate swaps and forward currency contracts. Contracts for difference are used by the Group in the normal course of business in order to manage exposure to fluctuations in spot market electricity prices. Interest rate swaps are used to fix the Groups exposure to the floating interest rate in its loan facility. Forward currency contracts are used to fix the Group's exposure to currency fluctuations on contracted capital expenditure denominated in a foreign currency. All derivatives are held to maturity and are specific to the Group. The Group holds sufficient derivatives to cover its generation shortfall in a dry year and its core debt floating interest rate and foreign currency exposures. The Group does not hold derivative financial instruments for the purposes of trading those instruments for a profit.

At balance date the Group had electricity derivative contracts that had commencement and finishing dates running to 31/05/18 (March 2014: 31/12/2016). The total nominal volume of derivatives is 338.9 GWh (March 2014: 304.1 GWh).

10

## INVESTMENTS

Shares in Subsidiary Companies at Cost

### Subsidiaries Comprise

### % Holding

KCE Generation Limited  
KCE Mangahao Limited  
KCE Retail Limited

100  
100  
100

### Activities

Energy Generation  
Energy Generation  
Energy Retailing

### Incorporated

New Zealand  
New Zealand  
New Zealand

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
-	-	14,300	14,300

All Companies have 31 December balance dates and the directors of the Parent are also the directors of the subsidiaries. The Parent has held 100% control of the subsidiaries for both the current and prior reporting periods.

KCE Mangahao Ltd was incorporated on 3 December 1997 and commenced operations on 23 December 1997 when it purchased the Mangahao power station in conjunction with Todd Mangahao Ltd. These two organisations participated in an unincorporated joint arrangement until its dissolution on 1 June 2012, when KCE Mangahao Ltd acquired the Todd Mangahao Ltd assets.

KCE Generation Ltd and KCE Retail Ltd were incorporated by the Company on 7 January 1999 and commenced operation on 1 March 1999 when they acquired certain assets and business operations from the Company.

11

## INTANGIBLE ASSETS

### Goodwill - Opening & Closing Balance

### Computer Software

Cost

Accumulated Amortisation and Impairment

### Net Carrying Amount

Net Carrying Amount Beginning of Period

Additions

Amortisation Charge for the Period

### Balance at the End of the Period

### Total Intangible Assets

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
1,560	1,560	-	-
1,297	1,294	1,168	1,165
(1,116)	(1,073)	(989)	(947)
181	221	179	218
221	405	218	387
3	42	3	42
(43)	(226)	(42)	(211)
181	221	179	218
1,741	1,781	179	218

## Notes to the Financial Statements

for the nine months ended 31 December 2014

The total value of Goodwill is allocated to the business of KCE Retail Ltd. KCE Retail Ltd is considered to be a single cash generating unit as defined by accounting standards. Goodwill is assumed to have an indefinite life and its value has been determined as carrying value at the time of adoption of IFRS, less any subsequent impairment calculated using the "value in use" methodology prescribed by NZ IAS 36. Directors believe there has been no impairment to the value of goodwill.

Goodwill's value in use has been determined with reference to the five year business plan for the Group for the period commencing on 1 January 2015 and ending on 31 December 2019. Anticipated cash flows beyond 31 December 2019 are excluded from the calculation of value in use. The key factors determining value in use are electricity sale and purchase prices and sales volumes.

A small decline in customer numbers is assumed over the forecast period as a consequence of increased competition in our incumbent market. Growth is assumed in some key target markets building on growth achieved in these markets during the current period. Consumption per customer is assumed to remain at its current level. Modelled prices are either stable or declining slightly and reduce in real terms.

The purchase price of electricity will remain stable over the first half of the plan period. Sufficient derivative cover and generation capacity is in place for this period to provide reasonable certainty on purchase price. Additional derivative cover will be required upon the expiry of existing contracts and this cover will be the subject of market price risk. Prices used in this period are based upon external forecasts prepared by an independent expert organisation. None of our derivative contracts contain a provision for price adjustments for carbon and as all our generation is from renewable sources there will be no requirement for the Group to purchase carbon credits.

The margin between the Cash Generating Unit's recoverable amount and its carrying amount is substantial and a reasonably possible change in key inputs will not result in an impairment to the carrying value of goodwill. In determining goodwill's value in use, the Group has applied a discount rate of 10.0% (March 2014 10.0%) to the pre-tax and pre interest cash flow of the retail operations.

12

### BORROWINGS

#### Current Borrowings

Capitalised Lease Obligations  
Current Portion of Term Borrowing

#### Non Current Borrowings

Capitalised Lease Obligations  
Non Current Portion of Term Borrowing

#### Capitalised Lease Minimum Lease Payment Obligations

Within One Year  
One to Two Years  
Two to Five Years

#### Capitalised Lease Present Value Payment Obligations

Within One Year  
One to Two Years  
Two to Five Years

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
52	52	52	52
796	496	796	496
<b>848</b>	<b>548</b>	<b>848</b>	<b>548</b>
38	69	38	69
27,500	27,400	27,500	27,400
<b>27,538</b>	<b>27,469</b>	<b>27,538</b>	<b>27,469</b>
56	56	56	56
43	56	43	56
3	32	3	32
<b>102</b>	<b>144</b>	<b>102</b>	<b>144</b>
52	52	52	52
36	46	36	46
2	23	2	23
<b>90</b>	<b>121</b>	<b>90</b>	<b>121</b>

The difference between the minimum lease payment obligation and the present value of lease payment obligations for all periods is the interest content of the monthly lease payments.



## Notes to the Financial Statements

## Term Loan

The Group has a \$45 million unsecured term loan facility with \$5 million expiring on 17 January 2016, \$30 million expiring on 17 December 2017 and \$10 million expiring on 17 December 2019. Of the total facility \$35m is available for borrowing and \$10m is available to provide letters of credit and other bank guarantees. Interest is calculated as bank bill rate plus a margin and facility fees are payable. The facility is subject to negative pledges in respect to interest cover, gearing ratio, and total tangible assets held by the guaranteeing group. As at balance date the Group complied with all bank imposed ratios and had met all other obligations imposed upon it by the loan document.

## 13 CAPITAL COMMITMENTS

The following amounts have been committed to by the Group but not recognised in the financial statements:

Capital Expenditure  
New Generator Wairere  
Wairere Needle Gate

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
20	580	-	-
-	5	-	-
20	585	-	-

## 14 RELATED PARTY TRANSACTIONS

The Parent (and its subsidiaries) is a subsidiary of Nova Energy Ltd, a wholly owned subsidiary of The Todd Corporation Ltd (the Ultimate Parent). Group Companies are parties to a number of transactions with the following related parties:

Nova Energy Limited, a 54.1% ( March 2014 54.1% excluding treasury stock) shareholder in King Country Energy Limited (hereafter referred to as Nova Energy)

All related party transactions are conducted on an arms length basis and provide benefits to both parties. All related party transactions, are part of the ordinary on-going business operations of the Group. No related party debts were written off or forgiven during the period (March 2014: nil).

Nova Energy holds the management contract for the Mangahao power station under which it manages the operation of the station, employs station staff and despatches the plant to market. For this service Nova Energy is paid a fixed monthly management fee and reimbursed for expenditure incurred on behalf of the Group. The management fee is intended to replicate the fee an external organisation would be paid for providing the same service.

The Group has a contract with Nova Energy for the supply of LPG and related 45kg LPG cylinders for the purpose of the Group retailing bottled LPG to its electricity customers. LPG is supplied at current market price.

The Parent acts as a funder for its subsidiaries and provides accounting and certain other administrative services for them. Advances within the Group are repayable on demand and interest is charged on the outstanding balances at market interest rates on a monthly basis.

KCE Retail Ltd purchases electricity from KCE Generation Ltd. Purchases are carried out at an agreed transfer price based upon anticipated market prices over the period.

## Notes to the Financial Statements

for the nine months ended 31 December 2014

### Transactions with related parties

#### Purchases

Nova Energy Ltd (excluding cost reimbursements)

#### Payables

Nova Energy Ltd

### Balances with Group Companies

KCE Retail Limited

KCE Generation Limited

KCE Mangahao Limited

### Compensation for Key Management Personnel

Short-term Employee Benefits

#### Total Compensation

	Group		Parent	
	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
	143	167	-	-
	49	58	-	-
	-	-	(662)	(810)
	-	-	(610)	866
	-	-	62,142	65,273
	-	-	<b>60,870</b>	<b>65,329</b>
	913	1,139	913	1,139
	<b>913</b>	<b>1,139</b>	<b>913</b>	<b>1,139</b>

Key Management Personnel comprise the Directors, the Chief Executive and the management team reporting to the Chief Executive

# Notes to the Financial Statements

for the nine months ended 31 December 2014

15

## FINANCIAL INSTRUMENTS

The Group holds the following classes of financial instrument

### Financial Assets Held for Trading Through Profit and Loss

Derivative Financial instruments

### Loans and Receivables

Cash & Cash Equivalents

Trade Receivables

Intercompany Balances

### Financial Liabilities Held for Trading Through Profit and Loss

Derivative Financial instruments

### Other Liabilities at Amortised Cost

Trade & Other Creditors

Borrowings

	Group		Parent	
	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
	-	233	-	233
	-	233	-	233
	2,342	1,501	2,342	1,501
	4,492	2,924	1	-
	-	-	60,870	65,329
	6,834	4,425	63,213	66,830
	3,087	1,788	74	7
	3,087	1,788	74	7
	2,335	2,859	231	539
	28,296	27,896	28,296	27,896
	30,631	30,755	28,527	28,435

### Fair Values

The carrying amounts of cash and cash equivalents are equivalent to their fair value. The carrying amounts of receivables and creditors are invoiced amounts, taking account of any amounts considered irrecoverable and are equivalent to their fair value. The fair value of interest rate swaps and forward currency contracts is the market value of such contracts as determined by their counter party. The fair value of electricity price derivative contracts can vary day to day as the spot market price for electricity varies. The fair value of an electricity derivative is deemed to be the net present value of its future cash flows which is the forecast difference between future spot prices and the derivative price.

The future spot prices used to calculate the value of derivatives are supplied by EnergyLink Ltd, a specialist forecasting consulting practice that use a combination of historical price trends, forecast growth in consumption, planned construction of new generation plant and expected construction costs to predict future prices. EnergyLink provide prices under various assumptions of hydrological conditions. The Group uses the price assumption for long run average hydrological conditions. The price assumption used by the Group also contains a component which reflects the anticipated cost of carbon credits required by thermal generators. The price model assumes that over the forecast period the average price of carbon is \$5.02 per tonne (March 2014: \$5.37). During the forecast period the minimum spot price is assumed to be \$48.52 per Mwh (March 2014: \$51.40) and the maximum price \$86.99 per Mwh (March 2014: \$120.04).

The spot price supplied by EnergyLink is based upon supply at the Haywards grid exit point. This price is adjusted to the expected price at the grid exit points on which the Group trades by the application of location factors. Location factors are supplied by Energylink and are calculated by reference to historical differences from Hayward's prices adjusted for expected changes in supply and demand at the respective grid exit points. Location factors range from 0.918 to 1.079 (March 2014: 0.911 to 1.039) over the forecast period.

# Notes to the Financial Statements

for the nine months ended 31 December 2014

The following tables present the Group's and Parent's financial assets and liabilities that are measured at fair value.

GROUP	Level 1	Level 2	Level 3	Total
	\$000	\$000	\$000	\$000
<b>31 December 2014</b>				
<b>Liabilities</b>				
Electricity Price Derivatives	-	-	3,013	3,013
Interest Rate Swap	-	74	-	74
<b>31 March 2014</b>				
<b>Assets</b>				
Interest Rate Swaps	-	223	-	223
<b>Liabilities</b>				
Electricity Price Derivatives	-	-	1,781	1,781
Forward Currency Contracts	-	7	-	7
<b>PARENT</b>				
<b>31 December 2014</b>				
<b>Liabilities</b>				
Interest Rate Swaps	-	74	-	74
<b>31 March 2014</b>				
<b>Assets</b>				
Interest Rate Swaps	-	233	-	233
<b>Liabilities</b>				
Forward Currency Contracts	-	7	-	7

Level One is for fair values obtained from a quoted price in an active market for identical assets or liabilities. Level Two is for fair values obtained from inputs other than quoted prices included within Level One that are observable for the asset or liability either directly or indirectly. Level Three is for fair values obtained from inputs for the asset or liability that are not based on observable market data.

The Group's Level three financial assets and liabilities comprise the derivative financial instruments disclosed in Note 9. The movement in the fair value of level 3 financial assets and liabilities is disclosed in Note 9 as is the reporting of the components that comprise the movement in fair value. The other assets held by the Group at fair value Level Three comprise Generation Plant & Equipment, Land & Land Improvements and Buildings. The movement in the values of these asset classes, their valuation assumptions and sensitivity to changes in key assumptions is disclosed in Note 8.

# Notes to the Financial Statements

## for the nine months ended 31 December 2014

### Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of cash, trade receivables and derivative financial instruments. The maximum credit risk as defined by NZ IFRS 7 is the carrying value of these financial instruments, however Directors consider the risk of non recovery of these amounts as being minimal. The Group places its cash deposits with high-credit-quality financial institutions. Concentrations of credit risk with respect to receivables are limited due to a large number of customers included in the Company's customer base. The Group requires a deposit for certain high credit risk customers if no credit references are received from other energy companies. The Group faces the risk that a party to a derivative financial instrument will default on a payment. The Group has derivative contracts with a single generator which will be settled through the reconciliation manager eliminating settlement risk except in circumstances where the generator produces less electricity volume than is hedged. The derivative is backed by geothermal generation eliminating weather related risk. No other form of security or collateral is required to support financial instruments with credit risk.

### Market Risk

The Group is exposed to market risk in respect of spot market electricity purchases. The Group is exposed to the spot market to the extent its own generation is insufficient to meet sales to its customers. On an annual basis the Group purchases approximately 4% (March 2014: 12%) of its sales volume on the spot market. It is the Group's current policy to use derivatives to meet its estimated net electricity demand after allowing for periods of low water flows in its hydro catchment areas. At 31 December 2014 the Group has a derivative book for the next financial year that meets this policy objective. The Group negotiates its purchases of derivatives, generally at least a year in advance of requirements, giving it the option to shed customer load if it is unable to achieve derivative cover that allows profitable sale of electricity to end consumers.

Under these contracts Group Companies agree a fixed price (strike price) for their estimated electricity needs with various counterparties. On maturity of these agreements any difference between the strike price and the spot market price is settled between the parties. Settlement occurs irrespective of the amount of electricity actually supplied. If the spot market price is greater than the strike price, the counterparty must settle the difference with the Group. Conversely if the spot market price is less than the strike price, the Group must settle the difference with the counterparty. The group deems that there is no market risk if it has to settle derivatives because the spot price is below the strike price. Retail selling prices are such that the Group is able to pay the strike price for its electricity purchases and still make an adequate return.

Movements in the expected future prices of electricity have the effect of changing the fair value of electricity derivatives. Such movements have no impact on the cash position of the Group but do affect the reported profit after tax as valuation movements. Increasing future prices increase the value of derivatives while falling future prices decrease the value of derivatives.

The Group is exposed to interest rate price risk on its borrowing. The Groups core debt (the portion of the debt not used to manage the timing of cash flows) is the subject of an interest rate swap that converts the floating interest rate on the loan to a fixed interest rate over the life of the loan. Debt subject to interest rate fluctuations represents 9% (March 2014 9%) of total borrowing.

From time to time the Group is exposed to foreign currency price risk when purchasing capital items from offshore suppliers. The Group enters into forward currency contracts for the full value of such purchases at the time the contract to purchase is signed.



# Notes to the Financial Statements

for the nine months ended 31 December 2014

## Sensitivity Analysis

The following table summarises the effect of a 10% increase or decrease in the projected forward price of electricity used to value derivative contracts on the Groups assets, liabilities, tax paid profit and equity. The analysis assumes that all other variables are held constant as a result of the change in the value of the derivative contracts.

	Group		Parent	
	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
Increase/(Decrease) in Profit of a 10% Increase in electricity price	1,408	1,423	-	-
Increase/(Decrease) in Assets of a 10% Increase in electricity price	-	-	-	-
Increase/(Decrease) in Liabilities of a 10% Increase in electricity price	(1,408)	(1,423)	-	-
Increase/(Decrease) in Profit of a 10% Decrease in electricity price	(1,408)	(1,423)	-	-
Increase/(Decrease) in Assets of a 10% Decrease in electricity price	-	-	-	-
Increase/(Decrease) in Liabilities of a 10% Decrease in electricity price	1,408	1,423	-	-

The effect on Equity is limited to the change in after tax profit

# Notes to the Financial Statements

for the nine months ended 31 December 2014

## Liquidity Risk

Liquidity risk is managed by holding bank deposits and managing the timing of cash flows. Credit terms extended to our customers are similar to those we receive from our suppliers. Cash flows from our customers largely match our payments to our suppliers. Cash is held to bridge any timing differences. Settlement of derivative contracts and electricity purchases occur on the same day. Because the volume of derivatives is linked to third party sales volumes and own generation volumes, net cash flow on settlement does not vary significantly from plan on each settlement date. Funding facilities are adequate to meet our operating plan. Additional funding facilities which are effective after balance date will be used for this purchase.

The tables below show the Group and Parent's financial liabilities by relevant maturity based upon the remaining period to the earliest possible contractual maturity date as at the relevant balance date. Amounts have not been discounted and where the settlement amount is based upon a future estimated price, the price used is consistent with that used for all other estimates included in these financial statements.

## GROUP

### At 31 December 2014

Net Settled Electricity Price Derivatives  
Accounts Payable and Accruals  
Borrowings

### At 31 March 2014

Net Settled Electricity Price Derivatives  
Accounts Payable and Accruals  
Borrowings

## PARENT

### At 31 December 2014

Accounts Payable and Accruals  
Borrowings  
Intercompany Borrowing

### At 31 March 2014

Accounts Payable and Accruals  
Borrowings  
Intercompany Borrowing

	Less than 1 month	1-6 Months	6-12 Months	Over 1 Year
	\$000	\$000	\$000	\$000
Net Settled Electricity Price Derivatives	267	491	457	2,166
Accounts Payable and Accruals	3,114	-	-	-
Borrowings	213	1,048	701	30,377
	3,594	1,539	1,158	32,543
Net Settled Electricity Price Derivatives	-	211	1,414	1,338
Accounts Payable and Accruals	3,186	-	-	-
Borrowings	137	1,132	781	27,760
	3,323	1,343	2,195	29,098
Accounts Payable and Accruals	231	-	-	-
Borrowings	213	1,048	701	30,377
Intercompany Borrowing	-	-	-	-
	444	1,048	701	30,377
Accounts Payable and Accruals	539	-	-	-
Borrowings	137	1,132	781	27,760
Intercompany Borrowing	-	-	-	810
	676	1,132	781	28,570

# Notes to the Financial Statements

for the nine months ended 31 December 2014

## Sensitivity Analysis

The Group considers its most significant risk to be generation volume risk. It uses financial derivatives to manage the spot price risk for the production shortfall between anticipated generation and sales. Derivatives are put in place prior to expanding the volume of sales, limiting the risk of sales volume growth outstripping market price protection. The Group manages its volume risk by varying the operating hours of its generation plant and varying the relationships between contracted volumes and times in its derivative contracts so that production and derivative contract volumes match demand over a day. The policy of the Group is to have sufficient derivatives in place to allow own generation based on long run average outputs plus derivatives to exceed forecast sales volumes by 20% of long run average generation volume.

The following table summarises the impact of generation volumes either increasing by 20% or falling by 20% from those achieved in the reporting periods shown. Generation volumes achieved in the nine months ended 31 December 2014 were 106% of long run average while those achieved in the year ended 31 March 2014 were 98%.

	Group		Parent	
	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
Impact of a 20% reduction in generation on Post Tax Profit	(1,678)	(1,796)	-	-
Impact of a 20% increase in generation on Post Tax Profit	1,678	1,796	-	-

## Capital Management Objectives

The Directors consider the capital of the company to comprise issued capital, revaluation reserves and retained earnings. The value of capital under management is disclosed in the following calculation of the gearing ratio.

A Group objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal long term capital structure designed to reduce the cost of capital. In the short term the Group may move from an optimal capital structure to allow it to complete its capital programme. As part of its borrowing facility the Group is not permitted to exceed a predetermined debt to equity ratio.

In order to maintain or adjust the capital structure or comply with its gearing ratio, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt comprises total borrowings less short term deposits. Total capital is "Shareholders' Equity" as shown in the consolidated Balance Sheet plus net debt.

It is the policy of the Board to maintain the current gearing ratio and review this should the construction or acquisition of new generation facilities require this. While Directors believe the company has excess capital for its current operations, all current capital would be required to support these new projects should they proceed. The Group's debt to equity ratio is well within the 40% required by its bankers.

## Notes to the Financial Statements

for the nine months ended 31 December 2014

The gearing ratios were as follows

### Net Debt

Current Borrowing

Non Current Borrowing

Short Term Deposits

### Equity

Shareholders Equity

### Total Capital Funding

### Gearing Ratio

Group		Parent	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
848	548	848	548
27,538	27,469	27,538	27,469
(2,342)	(1,501)	(2,342)	(1,501)
<b>26,044</b>	<b>26,516</b>	<b>26,044</b>	<b>26,516</b>
130,752	133,070	52,893	55,228
<b>156,796</b>	<b>159,586</b>	<b>78,937</b>	<b>81,744</b>
<b>16.6%</b>	<b>16.6%</b>	<b>33.0%</b>	<b>32.4%</b>

16

## EARNINGS PER SHARE

Earnings used in calculating basic and diluted earnings per share attributable to equity holders:

Profit After Tax Expense

Net Profit After Tax Attributable to Equity Holders of Parent

Weighted Average Number of Ordinary Shares for Basic and Diluted Earnings Per Share (thousands)

Group	
9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
3,838	5,070
3,838	5,070
25,312	25,312

There are no instruments on issue that could potentially dilute basic earnings per share in the future.

17

## DIVIDENDS

The Board of Directors resolved to pay a final dividend of 12 cents together with an imputation credit of 4.7 cents per ordinary share on the 27th of June 2014. Directors resolved to pay an interim dividend of 12.25 cents per ordinary share together with an imputation credit of 4.76 cents per ordinary share on the 12th of December 2014 for a total cash distribution to shareholders during the nine months of \$6,138,239 (March 2014: \$6,581,192).

During the nine months a total of \$17,752 of previously unclaimed dividends that had been returned to the Parent were claimed by and returned to shareholders.

Subsequent to the period end, the Board of Directors resolved to pay a final dividend of 12.50 cents per ordinary share, a total cash distribution of \$3,164,035. Imputation credits of 4.9 cents per share are to be attached to the dividend making the gross dividend equivalent to 17.4 cents per share. The dividend will be paid on 10 April 2015. This amount has not been recognised as a liability in 2014 but will be brought to account in 2015.

# Notes to the Financial Statements

for the nine months ended 31 December 2014

18

## SEGMENT REPORTING

The Group operates within the electricity generation and retail industry in the central North Island of New Zealand. The retail and generation segments of the business are managed separately but both segments have access to shared corporate services.

The retail segment sells electricity to final consumers which are classified as either domestic, commercial, farming or contract.

The generation segment of the business owns and operates the generation stations used to supply both the spot electricity market and retail customers. Generation also purchases spot market electricity for supply to the retail operation at an agreed transfer price. Generation manages spot market price risk through the acquisition of contracts for difference with other electricity generators.

Unallocated revenue, expenses, assets and liabilities represent the revenue, expenses assets and liabilities of the parent company. As they provide benefits to all segments they have not been apportioned to the operating segments.

	Retail		Generation		Total	
	9 Months	Year	9 Months	Year	9 Months	Year
	31.12.14	31.03.14	31.12.14	31.03.14	31.12.14	31.03.14
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>						
Sales to External Customers	23,245	26,561	11,656	12,479	34,901	39,040
Other Revenue from External Customers	64	186	2,708	2,516	2,772	2,702
Inter-segment Sales	-	-	15,564	19,898	15,564	19,898
Total Segment Revenues	23,309	26,747	29,928	34,893	53,237	61,640
Unallocated Revenue	-	-	-	-	59	39
<b>Total Segment Revenue</b>	<b>23,309</b>	<b>26,747</b>	<b>29,928</b>	<b>34,893</b>	<b>53,296</b>	<b>61,679</b>

The difference between total segment revenue and Group Operating Revenue in the Statement of Comprehensive Income is Inter-segment Sales

	Retail		Generation		Total	
	9 Months	Year	9 Months	Year	9 Months	Year
	31.12.14	31.03.14	31.12.14	31.03.14	31.12.14	31.03.14
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Results</b>						
Segment Results before Tax and Financing Costs	2,876	2,458	4,882	7,310	7,758	9,768
Unallocated Expenses	-	-	-	-	(1,024)	(1,164)
	<b>2,876</b>	<b>2,458</b>	<b>4,882</b>	<b>7,310</b>	<b>6,734</b>	<b>8,604</b>
Financing Costs	-	-	-	-	-	-
Unallocated Financing Costs	-	-	-	-	(1,413)	(1,419)
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,413)</b>	<b>(1,419)</b>
Income Tax	(805)	(688)	(1,336)	(2,047)	(2,141)	(2,735)
Unallocated Income Tax	-	-	-	-	658	620
	<b>(805)</b>	<b>(688)</b>	<b>(1,336)</b>	<b>(2,047)</b>	<b>(1,483)</b>	<b>(2,115)</b>
<b>Segment Net Operating Profit After Tax</b>	<b>2,071</b>	<b>1,770</b>	<b>3,546</b>	<b>5,263</b>	<b>3,838</b>	<b>5,070</b>



## Notes to the Financial Statements

for the nine months ended 31 December 2014

	Retail		Generation		Total	
	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000	9 Months 31.12.14 \$'000	Year 31.03.14 \$'000
<b>Assets and Liabilities</b>						
Segment Assets	5,762	4,608	183,223	185,662	188,985	190,270
Unallocated Assets	-	-	-	-	3,174	2,645
<b>Total Assets</b>	<b>5,762</b>	<b>4,608</b>	<b>183,223</b>	<b>185,662</b>	<b>192,159</b>	<b>192,915</b>
Segment Liabilities	3,419	1,984	32,537	30,814	35,956	32,798
Unallocated Liabilities	-	-	-	-	25,451	27,047
<b>Total Liabilities</b>	<b>3,419</b>	<b>1,984</b>	<b>32,537</b>	<b>30,814</b>	<b>61,407</b>	<b>59,845</b>
<b>Other Segment Information</b>						
Capital Expenditure	35	173	1,447	2,898	1,482	3,071
Unallocated Capital Expenditure	-	-	-	-	135	55
<b>Total Capital Expenditure</b>	<b>35</b>	<b>173</b>	<b>1,447</b>	<b>2,898</b>	<b>1,617</b>	<b>3,126</b>
Depreciation and Amortisation	52	66	4,132	5,452	4,184	5,518
Unallocated Depreciation & Amortisation	-	-	-	-	164	395
<b>Total Depreciation and Amortisation</b>	<b>52</b>	<b>66</b>	<b>4,132</b>	<b>5,452</b>	<b>4,348</b>	<b>5,913</b>
Impairment of Fixed Assets	-	-	250	511	250	511
Unallocated Impairment of Fixed Assets	-	-	-	-	-	146
	-	-	250	511	250	657
Other Non-cash Expenses	136	120	2,219	1	2,355	121
Unallocated Other Non-cash Expenses	-	-	-	-	576	52
<b>Total Other Non-cash Expenses</b>	<b>136</b>	<b>120</b>	<b>2,219</b>	<b>1</b>	<b>2,931</b>	<b>173</b>
<b>Cash Flow Information</b>						
Net Cash Inflow From Operating Activities	2,359	2,526	9,073	10,237	11,432	12,763
Unallocated Net Cash Outflow From Operating Activities	-	-	-	-	(3,299)	(3,183)
<b>Total Operating Cash Flow</b>	<b>2,359</b>	<b>2,526</b>	<b>9,073</b>	<b>10,237</b>	<b>8,133</b>	<b>9,580</b>
Net Cash inflow/(Outflow) From Investing Activities	141	(526)	(5,974)	(5,237)	(5,833)	(5,763)
Unallocated Net Cash Inflow From Investing Activities	-	-	-	-	4,327	2,704
<b>Total Investing Cash Flow</b>	<b>141</b>	<b>(526)</b>	<b>(5,974)</b>	<b>(5,237)</b>	<b>(1,506)</b>	<b>(3,059)</b>
Net Cash Flow From Financing Activities	-	-	-	-	-	-
Unallocated Net Cash Flow From Financing Activities	-	-	-	-	(5,788)	(5,380)
<b>Total Financing Cash Flow</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,788)</b>	<b>(5,380)</b>

19

### EVENTS SUBSEQUENT TO BALANCE DATE

#### Dividend

Subsequent to balance date, the Board have declared a cash dividend (with 4.9 cents per share imputation credits attached) of 12.5 cents per ordinary share, a total cash distribution of \$3,164,035. The dividend will be paid on 10 April 2015.

# Independent Auditor's Report



Chartered Accountants

## Independent Auditor's Report

### To the Shareholders of King Country Energy Limited

#### Report on the Financial Statements

We have audited the financial statements of King Country Energy Limited and its subsidiaries (together "the group") on pages 20 to 51, which comprise the statement of financial position of King Country Energy Limited and the group as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended of the company and group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 207B(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

#### Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interest in, King Country Energy Limited or any of its subsidiaries.

Partners and employees of our firm may deal with the group on normal terms within the ordinary course of trading activities of the business of the group.

#### Opinion

In our opinion, the financial statements on pages 20 to 51:

- ▶ comply with generally accepted accounting practice in New Zealand;
- ▶ comply with International Financial Reporting Standards; and
- ▶ present fairly, in all material respects, the financial position of King Country Energy Limited and the group as at 31 December 2014 and the financial performance and cash flows of the company and group for the period then ended.

#### Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 2013, we report that:

- ▶ We have obtained all the information and explanations that we have required.
- ▶ In our opinion proper accounting records have been kept by King Country Energy Limited as far as appears from our examination of those records.

27 February 2015  
Wellington

*KCE is proud to serve the people of Otorohanga, known as the 'kiwiana capital of New Zealand.' This corrugated iron Kiwi is one of many iconic artistic symbols on display throughout the town.*



*The power behind our community*



**King Country Energy**

**Phone** 0800 523 637 | **Email** [enquiry@kce.co.nz](mailto:enquiry@kce.co.nz) | **Web** [www.kce.co.nz](http://www.kce.co.nz)

**Fax** 07 896 6036 | **Postal Address** PO Box 363, Taumarunui 3946



**Registered Office** Corner Manuaute & Miriama Streets, Taumarunui 3946

**Share Registry** Link Market Services, PO Box 91976, Victoria Street West, Auckland 1142 | **Phone** 09 375 5998 | **Fax** 09 375 5990